MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA

ACTING THROUGH

THE MILLENNIUM CHALLENGE CORPORATION

AND

THE GOVERNMENT OF THE REPUBLIC OF EL SALVADOR

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MILLENNIUM CHALLENGE COMPACT

This MILLENNIUM CHALLENGE COMPACT (the "***Compact***") is made between the United States of America, acting through the Millennium Challenge Corporation, a United States Government corporation ("***MCC***") and the Government of the Republic of El Salvador (the "***Government***") (referred to herein individually as a "***Party***" and collectively, the "***Parties***") A compendium of capitalized terms defined herein is included in Exhibit A attached hereto

RECITALS

WHEREAS, MCC, acting through its Board of Directors, has selected the Republic of El Salvador as eligible to present to MCC a proposal for the use of Millennium Challenge Account ("***MCA***") assistance to help facilitate poverty reduction through economic growth in El Salvador,

WHEREAS, the Government has carried out a consultative process with the country's private sector and civil society to outline the country's priorities for the use of MCA assistance and developed a proposal, which was submitted to MCC in May 2006 (the "***Proposal***"),

WHEREAS, the Proposal focused on interrelated objectives of supporting knowledge and skills development, expanding community infrastructure, developing productive potential, and improving connectivity in the northern zone of El Salvador (the "***Northern Zone***") as important national priorities to foster national integration and sustainable economic and social development,

WHEREAS, MCC has evaluated the Proposal and related documents and determined that the Proposal is consistent with core MCA principles and includes a coherent structure of integrated activities that will advance the progress of El Salvador towards achieving lasting economic growth and poverty reduction,

WHEREAS, based on MCC's evaluation of the Proposal and related documents and subsequent discussions and negotiations between the Parties, the Government and MCC determined to enter into this Compact to implement a program using MCC Funding to advance El Salvador's progress towards economic growth and poverty reduction (the "***Program***"), and

WHEREAS, the Parties agree that the Government shall establish, in accordance with Article III and Annex I, Fondo del Milenio ("***FOMILENIO***"), the entity that shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government,

NOW, THEREFORE in consideration of the foregoing and the mutual covenants and agreements set forth herein, the Parties hereby agree as follows

ARTICLE I.

PURPOSE AND TERM

Section 1 1 Compact Goal, Objectives The goal of this Compact is to advance economic growth and poverty reduction in the Northern Zone of El Salvador (the "***Compact Goal***") The Parties have identified the following project-level objectives (collectively, the "***Objectives***") to

advance the Compact Goal, each of which is described in more detail in the Annexes attached hereto

(a) Increase human and physical capital of residents of the Northern Zone to take advantage of employment and business opportunities (the "***Human Development Objective***"),

(b) Increase production and employment in the Northern Zone (the "***Productive Development Objective***"), and

(c) Reduce travel cost and time within the Northern Zone, with the rest of country, and within the region (the "***Connectivity Objective***")

The Government expects to achieve, and shall use its best efforts to ensure the achievement of, the Compact Goal and these Objectives during the Compact Term

Section 1.2 Projects The Annexes attached hereto describe the component projects of the Program, the policy reforms and other activities related thereto (each, a "***Project***") that the Government will carry out, or cause to be carried out, in furtherance of this Compact to achieve the Objectives and the Compact Goal

Section 1.3 Entry into Force, Compact Term This Compact shall enter into force on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that (i) each Party has completed its domestic requirements for entry into force of this Compact (including as set forth in Section 3.20) and (ii) all conditions set forth in Section 4.1 have been satisfied by the Government and MCC ("***Entry into Force***") This Compact shall remain in force for five (5) years from Entry into Force, unless earlier terminated in accordance with Section 5.4 (the "***Compact Term***") Notwithstanding the foregoing, Sections 2.1(a)(iii), 3.1 to 3.10, 3.16 and 3.20 shall provisionally apply prior to Entry into Force in accordance with the terms and conditions set forth in each such Section and shall remain in full force and effect throughout the Compact Term

ARTICLE II.

FUNDING AND RESOURCES

Section 2.1 MCC Funding

(a) MCC's Contribution MCC hereby grants to the Government, subject to the terms and conditions of this Compact an amount not to exceed Four Hundred Sixty Million Nine Hundred and Forty Thousand United States Dollars (US$ 460,940,000) ("***MCC Funding***") during the Compact Term to enable the Government to implement the Program and achieve the Objectives

(i) Subject to Sections 2.1(a)(ii), 2.2(b) and 5.4(b), the allocation of MCC Funding within the Program and among and within the component Projects shall be as generally described in Annex II or as otherwise agreed upon by the Parties from time to time

(ii) If at any time MCC determines that a condition precedent to an MCC Disbursement has not been satisfied, MCC may, upon written notice to the Government reduce the total amount of MCC Funding by an amount equal to the amount estimated in the applicable

Detailed Budget for the Program, Project, Project Activity or sub-activity for which such condition precedent has not been met Upon the expiration or termination of this Compact, (A) any amount of MCC Funding not disbursed by MCC to the Government shall be automatically released from any obligation in connection with this Compact and (B) any amounts of MCC Funding disbursed by MCC to the Government as provided in Section 2 1(b)(i), but not re-disbursed as provided in Section 2 1(b)(ii) or otherwise incurred as permitted pursuant to Section 5 4(e) prior to the expiration or termination of this Compact, shall be returned to MCC in accordance with Section 2 5(a)(ii)

(iii) Notwithstanding any other provision of this Compact and pursuant to the authority of Section 609(g) of the Millennium Challenge Act of 2003, as amended (the "***Act***"), upon the conclusion of this Compact (and without regard to the satisfaction of all of the conditions for Entry into Force required under Section 1 3) MCC shall make available Nine Million Two Hundred and Eighteen Thousand United States Dollars (US$ 9,218,000) ("***Compact Implementation Funding***") to facilitate certain aspects of Compact implementation as described in Schedule 2 1(a)(iii) attached hereto, *provided, however*, such Compact Implementation Funding shall be subject to (A) the limitations on the use or treatment of MCC Funding set forth in Section 2 3, as if such provision were in full force and effect, and (B) any other requirements for, and limitations on the use of, such Compact Implementation Funding as may be required by MCC in writing, *provided, further*, that any Compact Implementation Funding granted in accordance with this Section 2 1(a)(iii) shall be included in, and not additional to, the total amount of MCC Funding, and *provided, further* any obligation to provide such Compact Implementation Funding shall expire upon the expiration or termination of this Compact or five (5) years from the conclusion of this Compact, whichever occurs sooner and in accordance with Section 5 4(e) Notwithstanding anything to the contrary in this Compact, this Section 2 1(a)(iii) shall provisionally apply, prior to Entry into Force, upon execution of this Compact by the Parties and ratification thereof by the Asamblea Legislativa and completion of the corresponding Publication Period, and this Section 2 1(a)(iii) shall remain in full force and effect throughout the Compact Term

(b) Disbursements

(i) Disbursements of MCC Funding MCC shall from time to time make disbursements of MCC Funding (each such disbursement, an "***MCC Disbursement***") to a Permitted Account or through such other mechanism agreed by the Parties under and in accordance with the procedures and requirements set forth in a Supplemental Agreement to be entered into by MCC, FOMILENIO and the Government (or a mutually acceptable Government Affiliate) setting forth the specific terms and conditions of MCC Disbursements and Re-Disbursements and the procurement policies and procedures for the Program (the "***Disbursement Agreement***")

(ii) Re-Disbursements of MCC Funding The release of MCC Funding from a Permitted Account (each such release, a "***Re-Disbursement***") shall be made in accordance with the procedures and requirements set forth in the Disbursement Agreement or as otherwise provided in any other Supplemental Agreement

(c) Interest Unless the Parties agree otherwise in writing, any interest or other earnings on MCC Funding that accrue (collectively "***Accrued Interest***") shall be held in a Permitted Account and shall accrue in accordance with the requirements for the accrual and

treatment of Accrued Interest as specified in Annex I or any Supplemental Agreement On at least a quarterly basis and upon the termination or expiration of this Compact, the Government shall return, or ensure the return of, all Accrued Interest to any United States Government account designated by MCC

(d) Currency The Government shall ensure that all MCC Funding that is held in any Permitted Account shall be denominated in the currency of the United States of America ("***United States Dollars***") prior to Re-Disbursement

Section 2 2 Government Resources

(a) In accordance with Section 609(b)(2) of the Act, the Government shall make a contribution towards meeting the Objectives of this Compact Section 6 of Annex II identifies such contribution

(b) The Government shall provide or cause to be provided such Government funds and other resources, and shall take or cause to be taken such actions, including obtaining all necessary approvals and consents, as are specified in this Compact or in any Supplemental Agreement to which the Government is a party or as are otherwise necessary and appropriate effectively to carry out the Government Responsibilities or other responsibilities or obligations of the Government under or in furtherance of this Compact during the Compact Term and through the completion of any post-Compact Term activities, audits or other responsibilities

(c) If at any time during the Compact Term, the Government materially reallocates or reduces the allocation in its national budget or any other Salvadoran governmental authority at a departmental, municipal, regional or other jurisdictional level materially reallocates or reduces the allocation in its respective budget, of the normal and expected resources that the Government or such other governmental authority, as applicable, would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, the Government shall notify MCC in writing within fifteen (15) days of such reallocation or reduction, such notification to contain information regarding the amount of the reallocation or reduction, the affected activities, and an explanation for the reallocation or reduction In the event that MCC independently determines upon review of the executed national annual budget that such a material reallocation or reduction of resources has occurred, MCC shall notify the Government and, following such notification, the Government shall provide a written explanation for such reallocation or reduction and MCC may (i) reduce, in its sole discretion, the total amount of MCC Funding or any MCC Disbursement by an amount equal to the amount estimated in the applicable Detailed Budget for the activity for which funds were reduced or reallocated, or (ii) otherwise suspend or terminate MCC Funding in accordance with Section 5 4(b)

(d) The Government shall use its best efforts to ensure that all MCC Funding is fully reflected and accounted for in the annual budget of the Republic of El Salvador on a multi-year basis

Section 2 3 Limitations on the Use or Treatment of MCC Funding

(a) Abortions and Involuntary Sterilizations The Government shall ensure that MCC Funding shall not be used to undertake fund or otherwise support any activity that is subject to prohibitions on use of funds contained in (i) paragraphs (1) through (3) of section 104(f) of the Foreign Assistance Act of 1961 (22 U S C 2151b(f)(1)-(3)) a United States statute which

prohibitions shall apply to the same extent and in the same manner as such prohibitions apply to funds made available to carry out Part I of such Act, or (ii) any provision of law comparable to the eleventh and fourteenth provisos under the heading "Child Survival and Health Programs Fund" of division E of Public Law 108-7 (117 Stat 162), a United States statute

(b) United States Job Loss or Displacement of Production The Government shall ensure that MCC Funding shall not be used to undertake, fund or otherwise support any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production, including

(i) Providing financial incentives to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States,

(ii) Supporting investment promotion missions or other travel to the United States with the intention of inducing United States firms to relocate a substantial number of United States jobs or a substantial amount of production outside the United States,

(iii) Conducting feasibility studies, research services, studies, travel to or from the United States, or providing insurance or technical and management assistance, with the intention of inducing United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States,

(iv) Advertising in the United States to encourage United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States,

(v) Training workers for firms that intend to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States,

(vi) Supporting a United States office of an organization that offers incentives for United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States, or

(vii) Providing general budget support for an organization that engages in any activity prohibited above

(c) Military Assistance and Training The Government shall ensure that MCC Funding shall not be used to undertake fund or otherwise support the purchase or use of goods or services for military purposes, including military training, or to provide any assistance to the military, police, militia, national guard or other quasi-military organization or unit

(d) Prohibition of Assistance Relating to Environmental, Health or Safety Hazards The Government shall ensure that MCC Funding shall not be used to undertake fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard Unless MCC and the Government agree otherwise in writing, the Government shall ensure that activities undertaken, funded or otherwise supported in whole or in part (directly or indirectly) by MCC Funding comply with environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time (the "***Environmental Guidelines***"), including any

definition of "likely to cause a significant environmental, health, or safety hazard" as may be set forth in such Environmental Guidelines

(e) Taxation

(i) Taxes The Government shall ensure that the Program, MCC Funding, Accrued Interest, and any other Program Asset shall be free from any taxes imposed under the laws currently or hereafter in effect in the Republic of El Salvador during the Compact Term This exemption shall apply to any use of MCC Funding, Accrued Interest, and any other Program Asset, including any Exempt Uses, and to any work performed under or activities undertaken in furtherance of this Compact by any person or entity (including contractors and grantees) funded by MCC Funding, and shall apply to all taxes, tariffs, duties, withholdings and other levies (each, a "***Tax***" and collectively, "***Taxes***"), including the following.

(1) To the extent attributable to MCC Funding, income taxes and other taxes on profit or businesses imposed on organizations or entities receiving MCC Funding, including taxes on the acquisition, ownership, rental, disposition or other use of real or personal property, taxes on investment or deposit requirements and currency controls in the Republic of El Salvador, municipal or departmental taxes, or any other tax, duty, charge or fee of whatever nature,

(2) Customs duties, tariffs, import and export taxes, or other levies on the importation, use and re-exportation of goods, services, or the personal belongings and effects, including personally-owned automobiles, for Program use or the personal use of individuals who are neither citizens nor permanent residents of the Republic of El Salvador and who are present in the Republic of El Salvador for purposes of carrying out the Program and their family members, including all charges based on the value of such imported goods,

(3) Taxes on the income or personal property of all individuals who are neither citizens nor permanent residents of the Republic of El Salvador, including income and social security taxes of all types and all taxes on the personal property owned by such individuals, to the extent such income or property are attributable to MCC Funding, and

(4) Taxes or duties levied for the purchase of goods or services funded by MCC Funding, including sales taxes, tourism taxes, value-added taxes ("***VAT***"), or other similar charges

(ii) This Section 2 3(e) shall apply to, but is not limited to (A) any transaction, service, activity, contract, grant or other implementing agreement funded in whole or in part by MCC Funding, (B) any supplies equipment, materials, property or other goods (referred to collectively in this Section 2 3(e) as 'goods") or funds introduced into, acquired in, used or disposed of in, or imported into or exported from, the Republic of El Salvador by MCC, or by any person or entity (including contractors and grantees) as part of or in conjunction with, MCC Funding or the Program, (C) any contractor, grantee, or other organization carrying out activities funded in whole or in part by MCC Funding, and (D) any employee of such organizations (the uses set forth in clauses (A) through (D) are collectively referred to herein as "***Exempt Uses***")

(iii) If a Tax has been levied and paid contrary to the requirements of this Section 2 3(e), then the Government shall refund to MCC, to an account designated by MCC the

amount of such Tax payment within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the date on which the Government is notified in writing, in accordance with procedures agreed by the Parties, of such Tax levy and payment, *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2 3(e)(iii) and no MCC Funding, Accrued Interest, or any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part (directly or indirectly) by MCC Funding (collectively, the "***Program Assets***") may be applied by the Government in satisfaction of its obligations under this paragraph

(iv) To implement this Section 2 3(e), the Government may, with the consent of MCC and through Implementation Letters, establish some or all of the following (A) a mechanism pursuant to which the Government will simultaneously pay the VAT portion of any invoices to be paid, in whole or in part, by FOMILENIO, (B) a mechanism pursuant to which, for Salvadoran income tax purposes, all payments or transfers made by FOMILENIO with MCC Funding are not considered as "income, profits, receipts or revenues" for the recipients of such payments or transfers (*renta excluida*) and therefore are excluded from the definition of income and the monthly estimated income tax payments and from the withholding tax regime applicable to providers of goods and services, (C) a mechanism pursuant to which the Government will reimburse to MCC or FOMILENIO, as appropriate, on a regular and timely basis, Taxes paid contrary to the requirements of this Section 2 3(e) due to the impracticality of implementing such requirements with respect to certain types of Taxes or the amount of such Taxes not being susceptible to precise determination, (D) a mechanism for ensuring the tax-free importation, use and re-exportation of goods, services or personal belongings of individuals (including all providers of goods and services) described in Section 2 3(e)(i)(2), and (E) the provision by the Government of a tax-exemption certificate to qualified individuals At MCC's request, the Parties shall memorialize, in a mutually acceptable Supplemental Agreement or Implementation Letter or other suitable document, the foregoing mechanisms and the Government shall take any other appropriate action to facilitate the administration of this Section 2 3(e) All payments made pursuant to this Section 2 3(e)(iv) shall be made with national funds

(f) Alteration No MCC Funding, Accrued Interest or other Program Asset shall be subject to any impoundment, rescission, sequestration or any provision of law now or hereafter in effect in the Republic of El Salvador that would have the effect of requiring or allowing any impoundment, rescission or sequestration of any MCC Funding, Accrued Interest or other Program Asset The Government shall ensure the due compliance and exact application thereof

(g) Liens or Encumbrances No MCC Funding, Accrued Interest or other Program Asset shall be subject to any lien, attachment, enforcement of judgment pledge, or encumbrance of any kind (each, a "***Lien***"), except with the prior approval of MCC in accordance with Section 3(c) of Annex I In the event of the imposition of any Lien not so approved, the Government shall promptly seek the release of such Lien and, if the Lien is not released within thirty (30) days of the imposition thereof, shall pay all amounts owed or take all other actions necessary to obtain such release, *provided, however*, that the Government shall apply national funds to satisfy its obligations under this Section 2 3(g) and no MCC Funding, Accrued Interest or other Program Asset may be applied by the Government in satisfaction of its obligations under this Section 2 3(g) The Government shall ensure the due compliance and exact application thereof

(h) Other Limitations The Government shall ensure that the use or treatment of MCC Funding, Accrued Interest, and other Program Assets shall be subject to and in conformity

with such other limitations (i) as required by the applicable law of the United States of America now or hereafter in effect during the Compact Term, (ii) as advisable under or required by applicable United States Government policies now or hereafter in effect during the Compact Term, or (iii) to which the Parties may otherwise agree in writing

(i) Utilization of Goods, Services and Works The Government shall ensure, unless otherwise agreed by the Parties in writing, that any Program Assets and any services, facilities or works funded in whole or in part (directly or indirectly) by MCC Funding shall be used solely in furtherance of this Compact

(j) Notification of Applicable Laws and Policies MCC shall notify the Government of any applicable United States law or policy affecting the use or treatment of MCC Funding, whether or not specifically identified in this Section 2 3, and shall provide to the Government a copy of the text of any such applicable law and a written explanation of any such applicable policy

Section 2 4 Incorporation, Notice, Clarification

(a) The Government shall include, or ensure the inclusion of, all of the requirements set forth in Section 2 3 in all Supplemental Agreements (except for Supplemental Agreements with Providers defined in Section 2 4(b)(ii) below) to which MCC is not a party

(b) The Government shall ensure notification of all of the requirements set forth in Section 2 3 to any Provider and to all of such Provider's relevant officers, directors, employees, agents, representatives, Affiliates, and to any of such Provider's contractors, sub-contractors, grantees and sub-grantees of any Provider The term "***Provider***" shall mean (i) FOMILENIO, (ii) any Government Affiliate or Permitted Designee (other than FOMILENIO) that receives or utilizes any Program Assets in carrying out activities in furtherance of this Compact or (iii) any third party who receives at least US$ 50,000 in the aggregate of MCC Funding (other than employees of FOMILENIO) during the Compact Term or such other amount as the Parties may agree in writing, whether directly from MCC, indirectly through Re-Disbursements, or otherwise

(c) In the event the Government or any Provider requires clarification from MCC as to whether an activity contemplated to be undertaken in furtherance of this Compact violates or may violate any provision of Section 2 3, the Government shall notify MCC in writing and provide in such notification a detailed description of the activity in question In such event, the Government shall not proceed, and shall use its best efforts to ensure that no relevant Provider proceeds, with such activity, and the Government shall ensure that no Re-Disbursements shall be made for such activity, until MCC advises the Government or such Provider in writing that the activity is permissible MCC shall use good faith efforts to respond timely to such notification for clarification

Section 2 5 Refunds, Violation

(a) Notwithstanding the availability to MCC or the exercise by MCC, of any other remedies, including under international law, this Compact or any Supplemental Agreement

(i) If any amount of MCC Funding, Accrued Interest, or any other Program Asset is used for any purpose prohibited under this Article II or otherwise in violation of any of

the terms and conditions of this Compact, any guidance in any Implementation Letter or any Supplemental Agreement, then MCC, upon written notice, may require the Government to repay promptly to MCC to an account designated by MCC or to others as MCC may direct the amount of such misused MCC Funding or Accrued Interest, or the cash equivalent of the value of any other misused Program Asset, in United States Dollars, plus any interest that accrued or would have accrued thereon, within thirty (30) days after the Government is notified, whether by MCC or other duly authorized representative of the United States Government, of such prohibited use, *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2 5(a)(i) and no MCC Funding, Accrued Interest, or any other Program Asset may be applied by the Government in satisfaction of its obligations under this Section 2 5(a)(i), and

(ii) Upon the termination or suspension of all or any portion of this Compact or upon the expiration of this Compact, the Government shall, subject to the requirements of Sections 5 4(e) and 5 4(f), refund, or ensure the refund to MCC, to such account designated by MCC, the amount of any MCC Funding, plus any Accrued Interest, promptly, but in no event later than thirty (30) days after the Government receives MCC's request for such refund, *provided, however*, that if this Compact is terminated or suspended in part, MCC may request a refund for only the amount of MCC Funding, plus any Accrued Interest, then allocated to the terminated or suspended portion

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under this Section 2 5 for a refund shall continue during the Compact Term and for a period of (i) five (5) years thereafter or (ii) one (1) year after MCC receives actual knowledge of such violation, whichever is later

(c) If MCC determines that any activity or failure to act violates, or may violate, any Section in this Article II, then MCC may refuse any further MCC Disbursements for or conditioned upon such activity, and may take any action to prevent any Re-Disbursement related to such activity

Section 2 6 Bilateral Agreement All MCC Funding shall be considered United States assistance under the General Agreement for Economic, Technical and Related Assistance between the Government of the United States of America and the Government of the Republic of El Salvador, dated June 16, 1962, as amended from time to time (the "***Bilateral Agreement***") If there are conflicts or inconsistencies between any parts of this Compact and the Bilateral Agreement, as either may be amended from time to time, the provisions of this Compact shall prevail over those of the Bilateral Agreement

ARTICLE III.

IMPLEMENTATION

Section 3 1 Creation of the "Fondo del Milenio" The Government promptly shall take all necessary and appropriate actions to create or cause to be created pursuant to a legislative decree that develops the provisions of this Article III and is, in form and substance, mutually agreeable to the Parties (the "***Law Creating FOMILENIO***") an autonomous public entity, with technical character and of public interest, named the "FONDO DEL MILENIO," hereinafter also known as "FOMILENIO," for so long as there are pending activities, rights or obligations with respect to the Compact FOMILENIO shall have legal capacity and with property of its own,

with autonomy in the exercise of its functions, in the financial and administrative aspects as well as in its budget Its domicile will be in the city of San Salvador, Republic of El Salvador but it will be able to establish branch offices anywhere in the Republic of El Salvador

Section 3 2 Responsibilities FOMILENIO shall administer its resources efficiently and comply with all of the responsibilities and obligations designated and assumed by it (i) pursuant to this Compact and Supplemental Agreements, (ii) pursuant to the Governing Documents, (iii) in accordance with all applicable laws then in effect in El Salvador that do not contravene the provisions of this Compact, and (iv) in a timely and cost-effective manner and in conformity with sound technical, financial and management practices

Section 3 3 Fundamental Objectives The fundamental objectives of FOMILENIO shall be the Compact Goal, the Human Development Objective, the Productive Development Objective and the Connectivity Objective

Section 3 4 Board and Management Generally

(a) FOMILENIO shall have (i) a board of directors (the "***Board***") that shall be responsible for the oversight and supervision of all FOMILENIO's activities and shall ensure the execution of FOMILENIO's responsibilities and obligations set forth in this Compact and the Governing Documents, as well as the compliance of the obligations of the Government under this Compact, and (ii) a management unit (the "***Management***") with day-to-day management responsibility for the implementation of this Compact

(b) The Board shall appoint, with the approval of MCC, an *ad honorem* Advisory Council (the "***Advisory Council***"), which shall be independent from FOMILENIO The composition roles and responsibilities of the Advisory Council shall be those established in Annex I hereto and in accordance with the provisions of the Governing Documents

Section 3 5 Board

(a) Formation The Board shall be formed, constituted governed and operated in accordance with the terms set forth in this Compact, the Governing Documents, and the Supplemental Agreements

(b) Constitution The Board shall consist of at least seven (7) but no more than eleven (11) voting members, and at least two (2) non-voting observers The Board members shall be designated in accordance with Section 3 5(e) One of the voting members designated by the Government in accordance with the Reglamento shall serve as the chairman of the Board (the "***Chair***") and legal representative of FOMILENIO

(c) Ad-honorem Membership The Board members will exercise their functions ad-honorem, therefore, they will not receive any salary, wages or other compensations for their work relating to their membership on the Board

(d) No Delegation, Alternates The members of the Board shall be prohibited from delegating their rights and responsibilities as members of the Board other than to their prior-appointed alternates who shall be permitted to vote on behalf of such primary member in the case of such primary member's absence

(e) Appointment of Board Members The required minimum seven (7) voting members of the Board shall be chosen as follows (i) four (4) of the voting members of the Board, and each of their alternates, shall be designated by the Government, subject to the prior receipt of a no-objection notice from MCC, (ii) one (1) of the voting members shall be a member of the private sector, and such member, and his/her alternate, shall be selected and appointed in accordance with the procedure set forth in the Reglamento, and (iii) two (2) of the voting members shall be representatives of NGOs, and such members, and each of their alternates, shall be selected and appointed in accordance with a process agreed upon by the Government and MCC Initially, the voting members designated by the Government shall be (i) the Technical Secretary of the President of the Republic of El Salvador, (ii) the Minister of Finance, (iii) the Minister of Foreign Affairs, and (iv) the Minister of Agriculture The required minimum two non-voting observers of the Board shall be (i) a representative designated by MCC (the "***MCC Representative***") and (ii) the Minister of the Environment and Natural Resources In the event that one of the NGO voting members is not from an environmentally focused NGO an additional observer from such an organization, subject to the prior receipt of a no-objection notice from MCC, shall be appointed Each non-voting observer shall be an "***Observer***" The Reglamento shall set forth the procedures for selection of any additional Board members and any additional Observers and the procedures for any change of the Chair and any change in the composition of the Board

(f) Roles and Responsibilities of the Board The Board shall

(i) Supervise and manage the Program and each of its component Projects and Project Activities,

(ii) Approve the regulations, manuals, instructions, internal organization, expenses, budgets and procurements for the execution of the Program,

(iii) Propose to the Government the Executive Decrees which may be necessary for the internal organization and operation of FOMILENIO,

(iv) Approve, execute and implement the necessary Supplemental Agreements for the execution of the Program,

(v) Appoint the Executive Director and define the Executive Director's role and responsibilities and delegate to the Executive Director the right to execute any agreement previously approved by the Board,

(vi) Request MCC Disbursements that are necessary for the execution of the Program, and

(vii) Carry out any other action that may have been granted by the Compact and the Executive Decree(s) specially created for the compliance and execution of the Program

Section 3 6 Executive Director The Executive Director of FOMILENIO (the "***Executive Director***") shall have the power and authority delegated to the Executive Director by the Board

Section 3 7 Patrimony and Budget The patrimony of FOMILENIO will be constituted through the grant of MCC Funding from the Government of the United States of America acting through MCC pursuant to this Compact FOMILENIO will have a multi-annual budget that will

be approved as an extraordinary budget by the Legislative Assembly of El Salvador (the "***Asamblea Legislativa***")

Section 3 8 Oversight and Control FOMILENIO will be subject to oversight and control by the Comptroller of the Republic of El Salvador (*Corte de Cuentas de la Republica de El Salvador*)

Section 3 9 Audits FOMILENIO will be subject to financial audits to verify the proper investment of its funds and patrimony For this purpose, FOMILENIO will have an internal audit department appointed by the Board FOMILENIO will also be subject to external financial controls in accordance with the Compact

Section 3 10 Reglamento The President of the Republic of El Salvador shall issue the Executive Decree through which the management, operations, and internal organization, among other rules and regulations of FOMILENIO are developed and regulated (the "***Reglamento***") consistent with this Compact, including Annex I, and the Law Creating FOMILENIO Notwithstanding anything to the contrary in this Compact, Sections 3 1 through 3 10 shall provisionally apply, prior to Entry into Force, upon the execution of this Compact by the Parties and the ratification of this Compact by the Asamblea Legislativa and completion of the corresponding Publication Period, and this Section 3 10 shall remain in full force and effect throughout the Compact Term

Section 3 11 Implementation Framework This Compact shall be implemented by the Parties in accordance with this Article III and as further specified in the Annexes and the Supplemental Agreements

Section 3 12 Government Responsibilities

(a) The Government shall have principal responsibility for oversight and management of the implementation of the Program (i) in accordance with the terms and conditions specified in this Compact and the Supplemental Agreements, (ii) in accordance with all applicable laws then in effect in El Salvador, and (iii) in a timely and cost-effective manner and in conformity with sound technical, financial and management practices (collectively, the "***Government Responsibilities***") Unless otherwise expressly provided, any reference to the Government Responsibilities or any other responsibilities or obligations of the Government herein shall be deemed to apply to any Government Affiliate and any of their respective directors, officers, employees, contractors, sub-contractors, grantees, sub-grantees agents or representatives

(b) The Government shall ensure that no person or entity shall participate in the selection, award, administration or oversight of a contract grant or other benefit or transaction funded in whole or in part (directly or indirectly) by MCC Funding, in which (i) the entity the person, members of the person's family down to the fourth level of consanguinity or the second level of affinity, or organizations controlled by or substantially involving such person or entity has or have a direct or indirect financial or other interest, or (ii) the person or entity is negotiating or has any arrangement concerning prospective employment unless such person or entity has first disclosed in writing to the Government the conflict of interest and, following such disclosure, the Parties agree in writing to proceed notwithstanding such conflict The Government shall ensure that no person or entity involved in the selection award, administration, oversight or implementation of any contract grant or other benefit or transaction

funded in whole or in part (directly or indirectly) by MCC Funding shall solicit or accept from or offer to a third party or seek or be promised (directly or indirectly) for itself or for another person or entity any gift, gratuity, favor or benefit, other than items of *de minimis* value and otherwise consistent with such guidance as MCC may provide from time to time

(c) The Government shall not designate any person or entity, including any Government Affiliate, to implement, in whole or in part, this Compact or any Supplemental Agreement (including any Government Responsibilities or any other responsibilities or obligations of the Government under this Compact or any Supplemental Agreement), or to exercise any rights of the Government under this Compact or any Supplemental Agreement, except as expressly provided herein or with the prior written consent of MCC, *provided, however,* the Government may designate FOMILENIO or, with the prior written consent of MCC, such other mutually acceptable persons or entities (each, a "***Permitted Designee***") to implement some or all of the Government Responsibilities or any other responsibilities or obligations of the Government or to exercise any rights of the Government under this Compact or any Supplemental Agreement, each in accordance with the terms and conditions set forth in this Compact, such Supplemental Agreement (referred to herein collectively as "***Designated Rights and Responsibilities***") Notwithstanding any provision herein or any other agreement to the contrary, no such designation shall relieve the Government of such Designated Rights and Responsibilities, for which the Government shall retain ultimate responsibility In the event that the Government designates any person or entity, including any Government Affiliate, to implement any portion of the Government Responsibilities or other responsibilities or obligations of the Government, or to exercise any rights of the Government under this Compact and the Supplemental Agreements, in accordance with this Section 3 12(c), then the Government shall (i) cause such person or entity to perform such Designated Rights and Responsibilities in the same manner and to the full extent to which the Government is obligated to perform such Designated Rights and Responsibilities, (ii) ensure that such person or entity does not assign, delegate, or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any person or entity, and (iii) cause such person or entity to certify to MCC in writing that it will so perform such Designated Rights and Responsibilities and will not assign, delegate, or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any person or entity without the prior written consent of MCC

(d) The Government shall, upon a request from MCC, execute, or ensure the execution of, an assignment to MCC of any cause of action which may accrue to the benefit of the Government, a Government Affiliate or any Permitted Designee, including FOMILENIO, in connection with or arising out of any activities funded in whole or in part (directly or indirectly) by MCC Funding

(e) The Government shall ensure that (i) no decision of FOMILENIO is modified, supplemented, unduly influenced or rescinded by any governmental authority, except by a non-appealable judicial decision, and (ii) the authority of FOMILENIO shall not be expanded restricted, or otherwise modified, except in accordance with this Compact, any Governing Document or any other Supplemental Agreement between the Parties

(f) The Government shall ensure that all persons and entities that enter into agreements to provide goods, services or works under the Program or in furtherance of this Compact shall do so in accordance with the Procurement Guidelines and shall obtain all

necessary immigration, business and other permits, licenses, consents and approvals to enable them and their personnel to fully perform under such agreements

Section 3 13 Government Deliveries The Government shall proceed, and cause others to proceed, in a timely manner to deliver to MCC all reports, notices, certificates, documents or other deliveries required to be delivered by the Government under this Compact or any Supplemental Agreement, in form and substance as set forth in this Compact or in any such Supplemental Agreement

Section 3 14 Government Assurances The Government hereby provides the following assurances to MCC that as of the date this Compact is signed

(a) The information contained in the Proposal and any agreement, report, statement, communication, document or otherwise delivered or communicated to MCC by or on behalf of the Government on or after the date of the submission of the Proposal (i) are true, correct and complete in all material respects and (ii) do not omit any fact known to the Government that if disclosed would (A) alter in any material respect the information delivered, (B) likely have a material adverse effect on the Government's ability to implement effectively, or ensure the effective implementation of, the Program or any Project or otherwise to carry out its responsibilities or obligations under or in furtherance of this Compact, or (C) have likely adversely affected MCC's determination to enter into this Compact or any Supplemental Agreement

(b) Unless otherwise disclosed in writing to MCC, the MCC Funding made available hereunder is in addition to the normal and expected resources that the Government usually receives or budgets for the activities contemplated herein from external or domestic sources

(c) This Compact does not conflict and will not conflict with any international agreement or obligation to which the Government is a party or by which it is bound

(d) No payments have been (i) received by any official of the Government or any other Governmental Affiliate in connection with the procurement of goods, services or works to be undertaken or funded in whole or in part (directly or indirectly) by MCC Funding, except fees, taxes, or similar payments legally established in the Republic of El Salvador (subject to Section 2 3(e)) and consistent with the applicable requirement of the laws of El Salvador, or (ii) made to any third party, in connection with or in furtherance of this Compact, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended (15 U S C 78a *et seq*)

Section 3 15 Implementation Letters, Supplemental Agreements

(a) MCC may, from time to time, issue one or more letters consistent with this Compact to furnish additional information or guidance to assist the Government in the implementation of this Compact (each an "***Implementation Letter***") The Government shall apply such guidance in implementing this Compact

(b) The details of any funding, implementing and other arrangements in furtherance of this Compact may be memorialized in one or more agreements or instruments between (i) the Government (or any Government Affiliate or Permitted Designee) and MCC, (ii) MCC or the Government (or any Government Affiliate or Permitted Designee) and any Provider or Permitted Designee, or (iii) Providers where neither MCC nor the Government is a party, before, on or

after Entry into Force (each, a "***Supplemental Agreement***") The Government shall deliver, or cause to be delivered, to MCC within five (5) days of its request, or such other period as may be specified in the Disbursement Agreement, the execution copy of any Supplemental Agreement to which MCC is not a party

(c) The Government agrees to execute and deliver such further documents and instruments and to take such further actions as may be necessary or desirable and reasonably requested by MCC to comply with this Compact, including Supplemental Agreements

Section 3 16 Procurement, Awards of Assistance

(a) Any procurement pursuant to this Compact or any of its Supplemental Agreements shall be governed by and consistent with the procurement guidelines (the "***Procurement Guidelines***") set forth in the Disbursement Agreement Accordingly, neither the *Ley de Adquisiciones y Contrataciones de la Administracion Pública*, its corresponding Executive Decree or any other laws or regulations of the Republic of El Salvador regarding procurements will apply thereto The Government shall ensure that the procurement of all goods, services and works by the Government or any Provider in furtherance of this Compact will be conducted in accordance with the Procurement Guidelines Such Procurement Guidelines shall include the following requirements

(i) Internationally accepted procurement rules with open, fair and competitive procedures are used in a transparent manner to solicit, award and administer contracts, grants, and other agreements and to procure goods, services and works,

(ii) Solicitations for goods, services, and works shall be based upon a clear and accurate description of the goods, services or works to be acquired,

(iii) Contracts shall be awarded only to qualified and capable contractors that have the capability and willingness to perform the contracts in accordance with the terms and conditions of the applicable contracts and on a cost effective and timely basis, and

(iv) No more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, shall be paid to procure goods, services, and works

(b) The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, records regarding the receipt and use of goods, services and works acquired in furtherance of this Compact, the nature and extent of solicitations of prospective suppliers of goods, services and works acquired in furtherance of this Compact, and the basis of award of contracts, grants and other agreements in furtherance of this Compact

(c) The Government shall use its best efforts to ensure that information, including solicitations, regarding procurement grant and other agreement actions funded (or to be funded) in whole or in part (directly or indirectly) by MCC Funding shall be made publicly available in the manner outlined in the Procurement Guidelines or in any other manner agreed upon by the Parties in writing

(d) The Government shall ensure that no goods, services or works that are funded in whole or in part (directly or indirectly) by MCC Funding are procured pursuant to orders or

contracts firmly placed or entered into prior to Entry into Force, except as the Parties may otherwise agree in writing

(e) The Government shall ensure that FOMILENIO and any other Permitted Designee follows, and uses its best efforts to ensure that all Providers follow, the Procurement Guidelines in procuring (including soliciting) goods, services and works and in awarding and administering contracts, grants and other agreements in furtherance of this Compact, and shall furnish MCC evidence of the adoption of the Procurement Guidelines by FOMILENIO no later than the time specified in the Disbursement Agreement

(f) The Government shall include, or ensure the inclusion of, the requirements of this Section 3 16 into all Supplemental Agreements between the Government, any Government Affiliate or Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, on the one hand, and a Provider, on the other hand

(g) Notwithstanding anything to the contrary in this Compact, this Section 3 16 shall provisionally apply, prior to Entry into Force, upon the execution of this Compact by the Parties and the ratification of this Compact by the Asamblea Legislativa and completion of the corresponding Publication Period, and this Section 3 16 shall remain in full force and effect throughout the Compact Term

Section 3 17 Policy Performance, Policy Reforms In addition to the specific policy and legal reform commitments identified in Annex I and the Schedules thereto, the Government shall seek to maintain and to improve its level of performance under the policy criteria identified in Section 607 of the Act, and the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time (the "***MCA Eligibility Criteria***")

Section 3 18 Records and Information, Access, Audits, Reviews

(a) Reports and Information The Government shall furnish to MCC, and shall use its best efforts to ensure that all Providers and any other third party receiving MCC Funding, as appropriate, furnish to the Government (and the Government shall provide to MCC), any records and other information required to be maintained under this Section 3 18 and such other information, documents and reports as may be necessary or appropriate for the Government to effectively carry out its obligations under this Compact, including under Section 3 22

(b) Government Books and Records The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, accounting books, records, documents and other evidence relating to this Compact adequate to show, to the satisfaction of MCC, the use of all MCC Funding, including all costs incurred by the Government and the Providers in furtherance of this Compact, the receipt, acceptance and use of goods, services and works acquired in furtherance of this Compact by the Government and the Providers, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods, services and works acquired by the Government and the Providers in furtherance of this Compact, the basis of award of Government and other contracts and orders in furtherance of this Compact, the overall progress of the implementation of the Program and any documents required by this Compact or any Supplemental Agreement or reasonably requested by MCC upon reasonable notice ("***Compact Records***") The Government shall maintain, and shall use its best efforts to ensure that FOMILENIO and all Covered Providers maintain, Compact Records in

accordance with generally accepted accounting principles prevailing in the United States, or at the Government's option and with the prior written approval by MCC, other accounting principles, such as those (i) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) or (ii) then prevailing in El Salvador Compact Records shall be maintained for at least five (5) years after the end of the Compact Term or for such longer period, if any, required to resolve any then-pending litigation, claims or audit findings or any statutory requirements

(c) Access Upon the request of MCC, the Government, at all reasonable times, shall provide, or cause to be provided, to authorized representatives of MCC, the Inspector General, the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or a Permitted Designee to conduct any assessment, review or evaluation of the Program, the opportunity to audit, review, evaluate or inspect (A) activities funded in whole or in part (directly or indirectly) by MCC Funding or undertaken in connection with the Program, the utilization of goods and services purchased or funded in whole or in part (directly or indirectly) by MCC Funding, and (B) Compact Records, including those of the Government or any Provider, relating to activities funded or undertaken in furtherance of, or otherwise relating to, this Compact The Government shall use its best efforts to ensure access by MCC, the Inspector General, the United States Government Accountability Office or relevant auditor, reviewer or evaluator or their respective representatives or agents to all relevant directors, officers, employees, Affiliates, contractors, representatives and agents of the Government or any Provider

(d) Audits

(i) Government Audits Except as the Parties may otherwise agree in writing, the Government, on at least a semi-annual basis, shall conduct, or cause to be conducted, financial audits of all MCC Disbursements and Re-Disbursements covering the period from the execution of the Compact until the earlier of the following December 31 and June 30, and covering each six-month period thereafter ending December 31 and June 30, through 2012, in accordance with the following terms As requested by MCC in writing, the Government shall use, or cause to be used, or select, or cause to be selected, an auditor named on the approved list of auditors in accordance with the *Guidelines for Financial Audits Contracted by Foreign Recipients* (the "***Audit Guidelines***") issued by the Inspector General of the United States Agency for International Development (the "***Inspector General***") and as approved by MCC, to conduct such annual audits Such audits shall be performed in accordance with such Audit Guidelines and be subject to quality assurance oversight by the Inspector General in accordance with such Audit Guidelines Any such audit shall be completed and delivered to MCC no later than ninety (90) days after the first period to be audited and no later than ninety (90) days after each anniversary of Entry into Force thereafter, or such other period as the Parties may otherwise agree in writing

(ii) Audits of U S Entities The Government shall ensure that Supplemental Agreements between the Government or any Provider on the one hand and a United States non-profit organization, on the other hand, state that the United States organization is subject to the applicable audit requirements contained in OMB Circular A-133, notwithstanding any other provision of this Compact to the contrary The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States for-

profit Covered Provider, on the other hand, state that the United States organization is subject to audit by the cognizant United States Government agency, unless the Government and MCC agree otherwise in writing

(iii) Audit Plan The Government shall submit, or cause to be submitted, to MCC, no later than twenty (20) days prior to the date of its adoption, a plan, in accordance with the Audit Guidelines, for the audit of the expenditures of any Covered Providers, which audit plan, in the form and substance as approved by MCC, the Government shall adopt, or cause to be adopted, no later than sixty (60) days prior to the end of the first period to be audited (such plan, the "***Audit Plan***")

(iv) Covered Provider A "***Covered Provider***" is (A) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) US$ 300,000 or more of MCC Funding in any FOMILENIO fiscal year or any other non-United States person or entity that receives (directly or indirectly) US$ 300,000 or more of MCC Funding from any Provider in such fiscal year, or (B) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) US$ 500,000 or more of MCC Funding in any FOMILENIO fiscal year or any other United States person or entity that receives (directly or indirectly) US$ 500,000 or more of MCC Funding from any Provider in such fiscal year

(v) Corrective Actions The Government shall use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, consider whether a Covered Provider's audit necessitates adjustment of its own records, and require each such Covered Provider to permit independent auditors to have access to its records and financial statements as necessary

(vi) Audit Reports The Government shall furnish, or use its best efforts to cause to be furnished, to MCC an audit report in a form satisfactory to MCC for each audit required by this Section 3 18, other than audits arranged for by MCC, no later than ninety (90) days after the end of the period under audit, or such other time as may be agreed by the Parties from time to time

(vii) Other Providers For Providers who receive MCC Funding pursuant to direct contracts or agreements with MCC, MCC shall include appropriate audit requirements in such contracts or agreements and shall, on behalf of the Government, unless otherwise agreed by the Parties, conduct the follow-up activities with regard to the audit reports furnished pursuant to such requirements

(viii) Audit by MCC MCC retains the right to perform, or cause to be performed, the audits required under this Section 3 18 by utilizing MCC Funding or other resources available to MCC for this purpose, and to audit, conduct a financial review, or otherwise ensure accountability of any Provider or any other third party receiving MCC Funding, regardless of the requirements of this Section 3 18

(e) Application to Providers The Government shall include, or ensure the inclusion of, at a minimum, the requirements of

(i) Paragraphs (a), (b), (c), (d)(ii) (d)(iii), (d)(v), (d)(vi), and (d)(viii) of this Section 3 18 into all Supplemental Agreements between the Government, any Government

Affiliate, any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents (each, a "***Government Party***"), on the one hand, and a Covered Provider that is not a non-profit organization domiciled in the United States, on the other hand,

(ii) Paragraphs (a), (b), (c), (d)(ii), and (d)(viii) of this Section 3 18 into all Supplemental Agreements between a Government Party and a Provider that does not meet the definition of a Covered Provider, and

(iii) Paragraphs (a), (b), (c), (d)(ii), (d)(v) and (d)(viii) of this Section 3 18 into all Supplemental Agreements between a Government Party and a Covered Provider that is a non-profit organization domiciled in the United States

(f) Reviews or Evaluations The Government shall conduct, or cause to be conducted, such performance reviews, data quality reviews, environmental and social audits, or program evaluations during the Compact Term or otherwise and in accordance with the M&E Plan or as otherwise agreed in writing by the Parties

(g) Cost of Audits, Reviews or Evaluations MCC Funding may be used to fund the costs of any audits, reviews or evaluations required under this Compact, including as reflected in Exhibit A to Annex II, and in no event shall the Government be responsible for the costs of any such audits, reviews or evaluations from financial sources other than MCC Funding

Section 3 19 Insurance, Performance Guarantees The Government shall, to MCC's satisfaction, insure or, cause to be insured, all Program Assets and shall obtain, or cause to be obtained, such other appropriate insurance and other protections to cover against risks or liabilities associated with the operations of the Program, including by requiring Providers to obtain adequate insurance and post adequate performance bonds or other guarantees FOMILENIO or the Implementing Entity, as applicable, shall be named as the payee on any such insurance and the beneficiary of any such guarantee including performance bonds to the extent permissible under applicable laws unless otherwise agreed by the Parties To the extent it is not named as the insured party, FOMILENIO shall be named as an additional insured on any such insurance or other guarantee, to the extent permissible under applicable laws unless otherwise agreed by the Parties Upon MCC's request and to the extent permissible under applicable laws, MCC shall be named as an additional insured on any such insurance or other guarantee, to the extent permissible under applicable laws The Government shall ensure that any proceeds from claims paid under such insurance or any other form of guarantee shall be used to replace or repair any loss of Program Assets or to pursue the procurement of the covered goods, services, works or otherwise, *provided, however*, at MCC's election, such proceeds shall be deposited in a Permitted Account as designated by FOMILENIO and acceptable to MCC or as otherwise directed by MCC To the extent FOMILENIO is held liable under any indemnification or other similar provision of any agreement between FOMILENIO, on the one hand, and any other Provider or other third party, on the other hand, the Government shall pay in full on behalf of FOMILENIO any such obligation, *provided, further* the Government shall apply national funds to satisfy its obligations under this Section 3 19 and no MCC Funding, Accrued Interest, or other Program Asset may be applied by the Government in satisfaction of its obligations under this Section 3 19

Section 3 20 Domestic Requirements The Government shall proceed in a timely manner to seek ratification of this Compact as necessary or required by the laws of El Salvador, or similar domestic requirement, in order that (a) this Compact shall be given the status of an international agreement, (b) no laws of El Salvador (other than the Constitution of El Salvador) now or hereafter in effect shall take precedence or prevail over this Compact during the Compact Term (or a longer period to the extent provisions of this Compact remain in force following the expiration of the Compact Term pursuant to Section 5 13), and (c) each of the provisions of this Compact (and each of the provisions of any Supplemental Agreement to which MCC is a party) is valid, binding and in full force and effect under the laws of El Salvador The Government shall initiate such process promptly after the conclusion of this Compact Notwithstanding anything to the contrary in this Compact, this Section 3 20 shall provisionally apply, prior to Entry into Force, upon the execution of this Compact by the Parties and the ratification of this Compact by the Asamblea Legislativa and completion of the corresponding Publication Period, and this Section 3 20 shall remain in full force and effect throughout the Compact Term

Section 3 21 No Conflict The Government shall undertake not to enter into any agreement in conflict with this Compact or any Supplemental Agreement during the Compact Term

Section 3 22 Reports The Government shall provide, or cause to be provided, to MCC at least on each anniversary of Entry into Force (or such other anniversary agreed by the Parties in writing) and otherwise within thirty (30) days of any written request by MCC, or as otherwise agreed in writing by the Parties, the following information

(a) A description of the Program and each Project funded in furtherance of this Compact, including a detailed description of the objectives and measures for results of the Program and the Projects,

(b) The progress made by the Republic of El Salvador toward achieving the Compact Goal and the Objectives,

(c) A description of the extent to which MCC Funding has been effective in helping the Republic of El Salvador to achieve the Compact Goal and the Objectives,

(d) A description of the coordination of MCC Funding with other United States foreign assistance and other related United States Government trade policies,

(e) A description of the coordination of MCC Funding with assistance provided by other donor countries,

(f) Any report, document or filing that the Government, any Government Affiliate or any Permitted Designee submits to any government body in connection with this Compact,

(g) Any report or document required to be delivered to MCC under the Environmental Guidelines, any Audit Plan, or any Implementation Documents, and

(h) Any other report, document or information requested by MCC or required by this Compact or any Supplemental Agreement

ARTICLE IV.

CONDITIONS PRECEDENT; DELIVERIES

Section 4 1 Conditions Prior to Entry into Force and Deliveries As conditions precedent to Entry into Force, the Parties shall satisfy the conditions set forth in this Section 4 1

(a) The Government (or a mutually acceptable Government Affiliate), a Permitted Designee, and MCC shall execute a Disbursement Agreement, which agreement shall be in full force and effect as of Entry into Force

(b) (i) The Government shall deliver one or more of the Supplemental Agreements or other documents identified in Exhibit B attached hereto, which agreements or other documents shall be fully executed by the parties thereto and in full force and effect, or (ii) the Government (or a mutually acceptable Government Affiliate), a Permitted Designee, and MCC shall execute one or more term sheets that set forth the material and principal terms and conditions that will be included in any such Supplemental Agreement or other documents that have not been entered into or have not become effective as of Entry into Force (the "***Supplemental Agreement Term Sheets***")

(c) The Government shall deliver a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative of the Government executing any document under this Compact, such written statement to be signed by a duly authorized official of the Government other than the Principal Representative or any such Additional Representative

(d) The Government shall deliver a certificate signed and dated by the Principal Representative of the Government, or such other duly authorized representative of the Government acceptable to MCC, that

(i) Certifies the Government has completed all of its domestic requirements in order that (A) this Compact (and any Supplemental Agreement to which MCC is a party) shall be given the status of an international agreement, (B) no laws of El Salvador (other than the Constitution of El Salvador) now or hereafter in effect shall take precedence or prevail over this Compact (or any Supplemental Agreement to which MCC is a party) during the Compact Term (or a longer period to the extent provisions of this Compact remain in force following the Compact Term pursuant to Section 5 13), and (C) each of the provisions of this Compact (and each of the provisions of any Supplemental Agreement to which MCC is a party) shall be valid, binding and in full force and effect under the laws of El Salvador,

(ii) Attaches thereto, and certifies that such attachments are, true, correct and complete, copies of all decrees, legislation, regulations or other governmental documents relating to its domestic requirements for this Compact to enter into force and the satisfaction of Section 3 20 which MCC may post on its website or otherwise make publicly available and

(iii) (1) Certifies that the Asamblea Legislativa has passed the Law Creating FOMILENIO pursuant to Article III hereof, and that such law is in full force and effect in accordance with the laws of El Salvador, and (2) attaches thereto a copy of the Law Creating FOMILENIO, which MCC may post on its website or otherwise make publicly available

(e) MCC shall deliver a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative of MCC executing any document under this Compact such written statement to be signed by a duly authorized official of MCC other than the Principal Representative or any such Additional Representative

(f) The Government has not engaged subsequent to the conclusion of this Compact in any action or omission inconsistent with the MCA Eligibility Criteria, as determined by MCC in its sole discretion

Section 4 2 Conditions Precedent to MCC Disbursements or Re-Disbursements Prior to, and as condition precedent to, any MCC Disbursement or Re-Disbursement, the Government shall satisfy, or ensure the satisfaction of, all applicable conditions precedent in the Disbursement Agreement

ARTICLE V.

FINAL CLAUSES

Section 5 1 Communications Unless otherwise expressly stated in this Compact or otherwise agreed in writing by the Parties, any notice, certificate, request, report, document or other communication required, permitted or submitted by either Party to the other under this Compact shall be (a) in writing, (b) in English, and (c) deemed duly given (i) upon personal delivery to the Party to be notified, (ii) when sent by confirmed facsimile or electronic mail, if sent during normal business hours of the recipient Party if not, then on the next business day, or (iii) three (3) business days after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt to the Party to be notified at the address indicated below, or at such other address as such Party may designate

To MCC

Millennium Challenge Corporation
Attention Vice President for Operations
(with a copy to the Vice President and General Counsel)
875 Fifteenth Street, N W
Washington, D C 20005
United States of America
Facsimile (202) 521-3700
Phone (202) 521-3600
Email VPOperations@mcc gov (Vice President for Operations),
VPGeneralCounsel@mcc gov (Vice President and General Counsel)

To the Government

The Government of the Republic of El Salvador
Attention Secretaria Técnica de la Presidencia
Casa Presidencial
Alameda Manuel Enrique Araujo #5500
San Salvador
Republic of El Salvador
Facsimile (503) 2248-9270
Phone (503) 2248-9328
Email contactenos@mca gob sv

With a copy to FOMILENIO

At an address, and to the attention of the person, to be designated in writing to MCC by the Government

Notwithstanding the foregoing, any audit report delivered pursuant to Section 3 18, if delivered by facsimile or electronic mail, shall be followed by an original in overnight express mail This Section 5 1 shall not apply to the exchange of letters contemplated in Section 1 3 or any amendments under Section 5 3

Section 5 2 Representatives Unless otherwise agreed in writing by the Parties, for all purposes relevant to this Compact, the Government shall be represented by the individual holding the position of, or acting as, Technical Secretary of the Presidency, and MCC shall be represented by the individual holding the position of, or acting as, Vice President for Operations (each, a "***Principal Representative***"), each of whom, by written notice to the other Party, may designate one or more additional representatives (each, an "***Additional Representative***") for all purposes other than signing amendments to this Compact The names of the Principal Representative and any Additional Representative of each of the Parties shall be provided, with specimen signatures, to the other Party, and the Parties may accept as duly authorized any instrument signed by such representatives relating to the implementation of this Compact, until receipt of written notice of revocation of their authority A Party may change its Principal Representative to a new representative of equivalent or higher rank and may change any Additional Representative, in either case, upon written notice to the other Party, which notice shall include the specimen signature of the new Principal Representative or Additional Representative, as applicable

Section 5 3 Amendments The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of the Parties and subject to the respective domestic approval requirements to which this Compact was subject

Section 5 4 Termination, Suspension

(a) Subject to Section 2 5, either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' written notice

(b) Notwithstanding any other provision of this Compact, including Section 2 1, or any Supplemental Agreement, subject to Section 2 5, MCC may suspend or terminate this Compact or MCC Funding, in whole or in part and any obligation or sub-obligation related

thereto, upon giving the Government written notice, if MCC determines, in its sole discretion that

(i) Any use or proposed use of MCC Funding or any other Program Asset or continued implementation of this Compact would be in violation of applicable law or United States Government policy, whether now or hereafter in effect,

(ii) The Government, any Provider, or any other third party receiving MCC Funding or using any Program Asset is engaged in activities that are contrary to the national security interests of the United States,

(iii) The Government or any Permitted Designee has committed an act or omission or an event has occurred that would render El Salvador ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U S C 2151 *et seq*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law,

(iv) The Government or any Permitted Designee has engaged in a pattern of actions or omissions inconsistent with the MCA Eligibility Criteria, or there has occurred a significant decline in the performance of the Republic of El Salvador on one or more of the eligibility indicators contained therein,

(v) The Government or any Provider has materially breached one or more of its assurances or any covenants, obligations or responsibilities under this Compact or any Supplemental Agreement,

(vi) An audit, review, report or any other document delivered in furtherance of this Compact or any Supplemental Agreement or any other evidence reveals that actual expenditures for the Program or any Project or any Project Activity were greater than the projected expenditure for such activities identified in the applicable Detailed Budget or are projected to be greater than projected expenditures for such activities,

(vii) If the Government (A) materially reallocates or reduces the allocation in its national budget or any other Government budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, (B) fails to contribute or provide the amount, level, type and quality of resources required effectively to carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact, or (C) fails to pay any of its obligations as required under this Compact or any Supplemental Agreement, including such obligations which shall be paid solely out of national funds,

(viii) If the Government, any Provider or any other third party receiving MCC Funding or using any other Program Asset or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking,

(ix) Any MCC Funding or Program Assets are applied (directly or indirectly) to the provision of resources and support to, individuals and organizations associated with terrorism, sex trafficking or prostitution,

(x) An event or condition of any character has occurred that (A) materially and adversely affects, or is likely to materially and adversely affect, the ability of the Government or any other party to effectively implement, or ensure the effective implementation of, the Program or any Project or otherwise to carry out its responsibilities or obligations under or in furtherance of this Compact or any Supplemental Agreement or to perform its obligations under or in furtherance of this Compact or any Supplemental Agreement or to exercise its rights thereunder, (B) makes it improbable that any of the Objectives will be achieved during the Compact Term, (C) materially and adversely affects any Program Asset or any Permitted Account, or (D) constitutes misconduct injurious to MCC, or constitutes a fraud or a felony, by the Government, any Government Affiliate, Permitted Designee or Provider, or any officer, director, employee, agent, representative, Affiliate, contractor, grantee, subcontractor or sub-grantee of any of the foregoing,

(xi) The Government, any Permitted Designee or any Provider has taken any action or omission or engaged in any activity in violation of, or inconsistent with, the requirements of this Compact or any Supplemental Agreement to which the Government or any Permitted Designee or Provider is a party,

(xii) There has occurred a failure to meet a condition precedent or series of conditions precedent or any other requirements or conditions in connection with MCC Disbursement as set out in and in accordance with any Supplemental Agreement, or

(xiii) Any MCC Funding, Accrued Interest or other Program Asset becomes subject to a Lien without the prior approval of MCC, and the Government fails to obtain the release of such Lien (utilizing national funds and not with MCC Funding, Accrued Interest or any other Program Asset) within thirty (30) days after the imposition of such Lien

(c) MCC may reinstate any suspended or terminated MCC Funding under this Compact or any Supplemental Agreement if MCC determines, in its sole discretion that the Government or other relevant party has demonstrated a commitment to correcting each condition for which MCC Funding was suspended or terminated

(d) The authority under this Section 5 4 to suspend or terminate this Compact or any MCC Funding includes the authority to suspend or terminate any obligations or sub-obligations relating to MCC Funding under any Supplemental Agreement without any liability to MCC whatsoever

(e) All MCC Disbursements and Re-Disbursements shall cease upon expiration, suspension, or termination of this Compact, *provided, however,* (i) reasonable expenditures for goods, services and works that are properly incurred under or in furtherance of this Compact before such expiration, suspension or termination of this Compact, and (ii) reasonable expenditures for goods and services (including certain administrative expenses) properly incurred in connection with the winding up of the Program within one hundred and twenty (120) days after such expiration, suspension or termination of this Compact may be paid from MCC Funding if (A) the request for such payment is properly submitted within ninety (90) days after such expiration suspension or termination of this Compact and (B) MCC had approved the making of such expenditure in writing in advance thereof

(f) Other than the payments permitted pursuant to Section 5 4(e), in the event of the suspension or termination of this Compact or any Supplemental Agreement, in whole or in part,

the Government, shall suspend, at MCC's sole discretion, for the period of the suspension, or terminate, or ensure the suspension or termination of, as applicable any obligation or sub-obligation of the Parties to provide financial or other resources under this Compact or any Supplemental Agreement, or to the suspended or terminated portion of this Compact or such Supplemental Agreement, as applicable In the event of such suspension or termination, the Government shall use its best efforts to suspend or terminate, or ensure the suspension or termination of, as applicable, all such noncancelable commitments related to the suspended or terminated MCC Funding Any portion of this Compact or any such Supplemental Agreement that is not suspended or terminated shall remain in full force and effect

(g) Upon the full or partial suspension or termination of this Compact or any MCC Funding, MCC may, at its expense, direct that title to any Program Assets be transferred to MCC if such Program Assets are in a deliverable state, *provided, however*, for any Program Asset partially purchased or funded (directly or indirectly) by MCC Funding, the Government shall reimburse to a United States Government account designated by MCC the cash equivalent of the portion of the value of such Program Asset, such value as determined by MCC

(h) Prior to the expiration of this Compact or upon the termination of this Compact, the Parties shall consult in good faith with a view to reaching an agreement in writing on (i) the post-Compact Term treatment of FOMILENIO, (ii) the process for ensuring the refunds of MCC Disbursements that have not yet been released from a Permitted Account through a valid Re-Disbursement or otherwise committed in accordance with Section 5 4(e), and (iii) any other matter related to the winding up of the Program and this Compact

Section 5 5 Privileges and Immunities MCC is an agency of the Government of the United States of America and its personnel assigned to the Republic of El Salvador will be notified pursuant to the Vienna Convention on Diplomatic Relations as members of the mission of the Embassy of the United States of America The Government shall ensure that any personnel of MCC so notified, including individuals detailed to or contracted by MCC, and the members of the families of such personnel, while such personnel are performing duties in the Republic of El Salvador, shall enjoy the privileges and immunities that are enjoyed by a member of the United States Foreign Service, or the family of a member of the United States Foreign Service so notified, as appropriate, of comparable rank and salary of such personnel, if such personnel or the members of the families of such personnel are not a national of, or permanently resident in the Republic of El Salvador

Section 5 6 Attachments Any annex, schedule, exhibit, table, appendix or other attachment expressly attached hereto (collectively, the "***Attachments***") is incorporated herein by reference and shall constitute an integral part of this Compact

Section 5 7 Inconsistencies

(a) Conflicts or inconsistencies between any parts of this Compact shall be resolved by applying the following descending order of precedence

(i) Articles I through V and

(ii) Any Attachments

(b) In the event of any conflict or inconsistency between this Compact and any Supplemental Agreement, the terms of this Compact shall prevail In the event of any conflict or inconsistency between any Supplemental Agreement between the Parties and any other Supplemental Agreement, the terms of the Supplemental Agreement between the Parties shall prevail In the event of any conflict or inconsistency between Supplemental Agreements between any parties, the terms of a more recently executed Supplemental Agreement shall take precedence over a previously executed Supplemental Agreement In the event of any inconsistency between a Supplemental Agreement and any component of the Implementation Documents, the terms of the relevant Supplemental Agreement shall prevail

Section 5 8 Indemnification The Government shall indemnify and hold MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative (each of MCC and any such persons, an "***MCC Indemnified Party***") harmless from and against, and shall compensate, reimburse and pay such MCC Indemnified Party for, any liability or other damages which (a) are (directly or indirectly) suffered or incurred by such MCC Indemnified Party, or to which any MCC Indemnified Party may otherwise become subject, regardless of whether or not such damages relate to any third-party claim, and (b) arise from or as a result of the negligence or willful misconduct of the Government, any Government Affiliate, FOMILENIO or any Permitted Designee, (directly or indirectly) connected with, any activities (including acts or omissions) undertaken in furtherance of this Compact, *provided, however,* the Government shall apply national funds to satisfy its obligations under this Section 5 8 and no MCC Funding, Accrued Interest, or other Program Asset may be applied by the Government in satisfaction of its obligations under this Section 5 8

Section 5 9 Headings The Section and Subsection headings used in this Compact are included for convenience only and are not to be considered in construing or interpreting this Compact

Section 5 10 Interpretation

(a) Any reference to the term "including" in this Compact shall be deemed to mean "including without limitation" except as expressly provided otherwise

(b) Any reference to activities undertaken "in furtherance of this Compact" or similar language shall include activities undertaken by the Government, any Government Affiliate FOMILENIO, any Permitted Designee, any Provider or any other third party receiving MCC Funding involved in carrying out the purposes of this Compact or any Supplemental Agreement, including their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, whether pursuant to the terms of this Compact, any Supplemental Agreement or otherwise

(c) References to "day" or "days" shall be calendar days unless provided otherwise

(d) Defined terms importing the singular also include the plural and vice versa

Section 5 11 Signatures A signature to this Compact or an amendment to this Compact pursuant to Section 5 3 shall be delivered only as an original signature With respect to all other signatures, a signature delivered by facsimile or electronic mail in accordance with Section 5 1 shall be deemed an original signature and shall be binding on the Party delivering such signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying

document, certificate, notice, instrument or agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form Without limiting the foregoing, a signature on an audit report or a signature evidencing any modification identified in Section 2(a) and Section 4(a)(iv) of Annex I, Section 4 of Annex II, or Section 5(d) of Annex III shall be followed by an original in overnight express mail

Section 5 12 Designation MCC may designate any Affiliate, agent, or representative to implement, in whole or in part, its obligations, and exercise any of its rights, under this Compact or any Supplemental Agreement MCC shall inform the Government of any such designation

Section 5 13 Survival Any Government Responsibilities, covenants, or obligations or other responsibilities to be performed by the Government after the Compact Term shall survive the termination or expiration of this Compact and expire in accordance with their respective terms Notwithstanding the termination or expiration of this Compact, the following provisions shall remain in force Sections 2 2, 2 3, 2 5, 3 2 to 3 9 (the expiration of which shall be governed by the Law Creating FOMILENIO and the Reglamento), 3 12, 3 13, 3 14, 3 15, 3 18, 3 19 (for one year), 3 22, 5 1, 5 2, 5 4(d), 5 4(e) (for one-hundred and twenty (120) days), 5 4(f), 5 4(g), 5 4(h), 5 5, 5 6, 5 7, 5 8, 5 9, 5 10, 5 11, 5 12, this Section 5 13, 5 14, and 5 15

Section 5 14 Consultation Either Party may, at any time, request consultations relating to the interpretation or implementation of this Compact or any Supplemental Agreement between the Parties Such consultations shall begin at the earliest possible date The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Party shall endeavor to designate a representative of equal or comparable rank If such representatives are unable to resolve the matter within twenty (20) days from the commencement of the consultations, then each Party shall forward the consultation to the Principal Representative or such other representative of comparable or higher rank The consultations shall last no longer than forty-five (45) days from date of commencement If the matter is not resolved within such time period, either Party may terminate this Compact pursuant to Section 5 4(a) The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner and by the principles of international law Any dispute arising under or related to this Compact shall be determined exclusively through the consultation mechanism set forth in this Section 5 14

Section 5 15 MCC Status MCC is a United States Government corporation acting on behalf of the United States Government in the implementation of this Compact As such, MCC has no liability under this Compact and is immune from any action or proceeding arising under or relating to this Compact, and the Government hereby waives and releases all claims related to any such liability In matters arising under or relating to this Compact MCC is not subject to the jurisdiction of the courts or other body of the Republic of El Salvador or any other jurisdiction and all disputes arising under or relating to this Compact shall be determined in accordance with Section 5 14

Section 5 16 Language This Compact is prepared in English and in Spanish and both versions shall have equal validity

Section 5 17 Publicity, Information and Marking The Government shall give appropriate publicity to this Compact as a program to which the United States, through MCC has contributed, including by posting this Compact, and any amendments thereto, on the website

operated by FOMILENIO (the "***FOMILENIO Website***") identifying Program activity sites, and marking Program Assets, *provided, however*, any announcement, press release or statement regarding MCC or the fact that MCC is funding the Program or any other publicity materials referencing MCC, including the publicity described in this Section 5.17, shall be subject to prior approval by MCC and shall be consistent with any instructions provided by MCC from time to time in relevant Implementation Letters. Upon the termination or expiration of this Compact, MCC may request the removal of, and the Government shall, upon such request, remove, or cause the removal of, any such markings and any references to MCC in any publicity materials or on the FOMILENIO Website. MCC may post this Compact, and any amendments thereto, on the website of MCC. MCC shall have the right to use any information or data provided in any report or document provided to MCC for the purpose of satisfying MCC reporting requirements or in any other manner.

SIGNATURE PAGE BEGINS ON THE NEXT PAGE

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective governments, have signed this Compact this 29th day of November, 2006 and this Compact shall enter into force in accordance with Section 1 3

Done at Washington, D C in English and Spanish

FOR MILLENNIUM CHALLENGE CORPORATION, ON BEHALF OF THE UNITED STATES OF AMERICA

Name John J. Danilovich
Title Chief Executive Officer

FOR THE GOVERNMENT OF THE REPUBLIC OF EL SALVADOR

Name Eduardo Zablah Touche
Title Technical Secretary to the Presidency of the Republic of El Salvador

EXHIBIT A

DEFINITIONS

The following compendium of capitalized terms that are used in this Compact is provided for the convenience of the reader To the extent that there is a conflict or inconsistency between the definitions in this Exhibit A and the definitions elsewhere in the text of this Compact, the definition elsewhere in this Compact shall prevail over the definition in this Exhibit A

Accrued Interest *shall have the meaning set forth in Section 2 1(c)*

Act *shall have the meaning set forth in Section 2 1(a)(iii)*

Ad Hoc Evaluation *shall have the meaning set forth in Section 3(b) of Annex III*

Additional Representative *shall have the meaning set forth in Section 5 2*

Advisory Council *shall have the meaning set forth in Section 3 4(b)*

Affiliate *means the affiliate of a party, which is a person or entity that controls, is controlled by or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence References to Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors sub-contractors, grantees, sub-grantees, representatives, and agents*

Asamblea Legislativa *shall have the meaning set forth in Section 3 7*

Attachments *shall have the meaning set forth in Section 5 6*

Audit Guidelines *shall have the meaning set forth in Section 3 18(d)(i)*

Audit Plan *shall have the meaning set forth in Section 3 18(d)(iii)*

Auditor *shall have the meaning set forth in Section 3(h) of Annex I*

Auditor/Reviewer Agreement *shall have the meaning set forth in Section 3(h) of Annex I*

Bank *means any bank holding a Permitted Account*

Bank Agreement *shall have the meaning set forth in Section 4(d) of Annex I*

Beneficiaries *shall have the meaning set forth in Section 2(a) of Annex III*

Bilateral Agreement *shall have the meaning set forth in Section 2 6*

BMI *shall have the meaning set forth in Section 2 of Schedule 2 to Annex I*

Board *shall have the meaning set forth in Section 3 4(a)*

Chair *shall have the meaning set forth in Section 3 5(b)*

Chalatenango Center *shall have the meaning set forth in Section 2(a)(ii)(I) of Schedule 1 to Annex I*

Civil Members *shall have the meaning set forth in Section 3(d)(ii)(2)(A) of Annex I*

Civil Society Stakeholders *shall have the meaning set forth in Section 3(e)(iv) of Annex I*

CND *shall have the meaning set forth in Section 1(a) of Annex I*

Compact *shall have the meaning set forth in the Preamble*

Compact Goal *shall have the meaning set forth in Section 1 1*

Compact Implementation Funding *shall have the meaning set forth in Section 2 1(a)(iii)*

Compact Records *shall have the meaning set forth in Section 3 18(b)*

Compact Reports *shall have the meaning set forth in Section 3(d)(ii)(3)(C) of Annex I*

Compact Term *shall have the meaning set forth in Section 1 3*

Community Development Activity *shall have the meaning set forth in Section 2(b) of Schedule 1 to Annex I*

Community Infrastructure Sub-Activity *shall have the meaning set forth in Section 2(b)(iii) of Schedule 1 to Annex I*

Connecting Roads Activity *shall have the meaning set forth in Section 2(b) of Schedule 3 to Annex I*

Connectivity Objective *shall have the meaning set forth in Section 1 1(c)*

Connectivity Project *shall have the meaning set forth in the Preamble of Schedule 3 to Annex I*

Covered Provider *shall have the meaning set forth in Section 3 18(d)(iv)*

DCA *shall have the meaning set forth in Section 5 of Schedule 2 to Annex I*

Designated Rights and Responsibilities *shall have the meaning set forth in Section 3 12(c)*

Detailed Budget *shall have the meaning set forth in Section 4(a)(ii) of Annex I*

DIGESTYC *shall have the meaning set forth in Section 2(a) of Annex III*

Disbursement Agreement *shall have the meaning set forth Section 2 1(b)(i)*

Education and Training Activity *shall have the meaning set forth in Section 2(a) of Schedule 1 to Annex I*

Education and Training Advisory Committee *shall have the meaning set forth in Section 2(a) of Schedule 1 to Annex I*

EHPM *shall have the meaning set forth in Section 2(b) of Annex III*

EIA *shall have the meaning set forth in Section 6(b) of Annex I*

EMP *shall have the meaning set forth in Section 6(b) of Annex I*

Entry into Force *shall have the meaning set forth in Section 1 3*

Environmental Guidelines *shall have the meaning set forth in Section 2 3(d)*

Evaluation Component *shall have the meaning set forth in Section 1 of Annex III*

Executive Decree *means an executive decree issued by the President of El Salvador*

Executive Director *shall have the meaning set forth in Section 3 6*

Exempt Uses *shall have the meaning set forth in Section 2 3(e)(ii)*

Final Evaluation *shall have the meaning set forth in Section 3(a) of Annex III*

Financial Plan *means collectively the Multi-Year Financial Plan each Detailed Budget and each amendment, supplement or other change thereto*

Financial Plan Annex *shall have the meaning set forth in the Preamble of Annex II*

Financial Services Activity *shall have the meaning set forth in Section 2(c) of Schedule 2 to Annex I*

Fiscal Accountability Plan *shall have the meaning set forth in Section 4(c) of Annex I*

Fiscal Agent *shall have the meaning set forth in Section 3(g)(i) of Annex I*

Fiscal Agent Agreement *shall have the meaning set forth in Section 3(g)(i) of Annex I*

Fiscal Oversight Agent *shall have the meaning set forth in Section 3(g)(ii) of Annex I*

Fiscal Oversight Agreement *shall have the meaning set forth in Section 3(g)(ii) of Annex I*

FISDL *shall have the meaning set forth in Section 2(b)(i) of Schedule 1 to Annex I*

FOMILENIO *shall have the meaning set forth in the Recitals*

FOMILENIO Website *shall have the meaning set forth in Section 5 17*

Formal Technical Education Sub-Activity *shall have the meaning set forth in Section 2(a)(ii) of Schedule 1 to Annex I*

FOVIAL *shall have the meaning set forth in Section 6 of Schedule 3 to Annex I*

GDP *means gross domestic product*

Goal Indicator *shall have the meaning set forth in Section 2(a) of Annex III*

Governing Documents *shall have the meaning set forth in Section 3(d)(i) of Annex I*

Government *shall have the meaning set forth in the Preamble*

Government Affiliate *means an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government or any local government in El Salvador References to Government Affiliate shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors grantees, sub-grantees, representatives, and agents*

Government Members *shall have the meaning set forth in Section 3(d)(ii)(2)(A) of Annex I*

Government Party *shall have the meaning set forth in Section 3 18(e)(i)*

Government Responsibilities *shall have the meaning set forth in Section 3 12(a)*

Human Development Objective *shall have the meaning set forth in Section 1 1(a)*

Human Development Project *shall have the meaning set forth in the Preamble of Schedule 1 to Annex I*

IADB *shall have the meaning set forth in Section 4 of Schedule 1 to Annex I*

Implementation Document *shall have the meaning set forth in Section 3(a) of Annex I*

Implementation Letter *shall have the meaning set forth in Section 3 15(a)*

Implementing Entity *shall have the meaning set forth in Section 3(f) of Annex I*

Implementing Entity Agreement *shall have the meaning set forth in Section 3(f) of Annex I*

Indicators *shall have the meaning set forth in Section 2(a) of Annex III*

Inspector General *shall have the meaning set forth in Section 3 18(d)(i)*

Investment Support Activity *shall have the meaning set forth in Section 2(b) of Schedule 2 to Annex I*

Law Creating FOMILENIO *shall have the meaning set forth in Section 3 1*

Lien *shall have the meaning set forth in Section 2 3(g)*

Local Account *shall have the meaning set forth in Section 4(d)(ii) of Annex I*

M&E *shall have the meaning set forth in Section 3 of Annex I*

M&E Annex *shall have the meaning set forth in the Preamble of Annex III*

M&E Plan *shall have the meaning set forth in Section 2(d) of Annex I*

Management *shall have the meaning set forth in Section 3 4(a)*

MARN *shall have the meaning set forth in Section 6(d) of Annex I*

MARN Program Requirements *shall have the meaning set forth in Section 6(g) of Annex I*

Material Agreement *shall have the meaning set forth in Section 3(c)(i)(4) of Annex I*

Material Re-Disbursement *shall have the meaning set forth in Section 3(c)(i)(7) of Annex I*

MCA *shall have the meaning set forth in the Recitals*

MCA Eligibility Criteria *shall have the meaning set forth in Section 3.17*

MCC *shall have the meaning set forth in the Preamble*

MCC Disbursement *shall have the meaning set forth in Section 2.1(b)(i)*

MCC Disbursement Request *shall have the meaning set forth in Section 4(b) of Annex I*

MCC Funding *shall have the meaning set forth in Section 2.1(a)*

MCC Indemnified Party *shall have the meaning set forth in Section 5.8*

MCC Representative *shall have the meaning set forth in Section 3.5(e)*

MEGATEC *shall have the meaning set forth in Section 2(a) of Annex III*

Monitoring Component *shall have the meaning set forth in Section 1 of Annex III*

MOP *shall have the meaning set forth in Section 4 of Schedule 3 to Annex I*

Multi-Year Financial Plan *shall have the meaning set forth in Section 4(a)(i) of Annex I*

Multi-Year Financial Plan Summary *shall have the meaning set forth in Section 1 of Annex II*

Network of Connecting Roads *or* ***NCR*** *shall have the meaning set forth in Section 2 of Schedule 3 to Annex I*

NGOs *means non-governmental organizations*

Non-Formal Skills Development Sub-Activity *shall have the meaning set forth in Section 2(a)(iii) of Schedule 1 to Annex I*

Northern Transnational Highway *or* ***NTH*** *shall have the meaning set forth in Section 2 of Schedule 3 to Annex I*

Northern Transnational Highway Activity *shall have the meaning set forth in Section 2(a) of Schedule 3 to Annex I*

Northern Zone *shall have the meaning set forth in the Recitals*

Northern Zone Investment Plan *shall have the meaning set forth in Section 1(a) of Annex I*

O&M *shall have the meaning set forth in Section 2(b)(i) of Schedule 1 to Annex I*

Objective Indicator *shall have the meaning set forth in Section 2(a) of Annex III*

Objectives *shall have the meaning set forth in Section 1.1*

Observer *shall have the meaning set forth in Section 3.5(e)*

Officer *shall have the meaning set forth in Section 3(d)(iii)(1) of Annex I*

Outcome Indicator *shall have the meaning set forth in Section 2(a) of Annex III*

Outcomes *shall have the meaning set forth in Section 1 of Annex III*

Output Indicator *shall have the meaning set forth in Section 2(a) of Annex III*

Party *or* ***Parties*** *shall have the meaning set forth in the Preamble*

PD Investment Committee *shall have the meaning set forth in Section 2 of Schedule 2 to Annex I*

PD Operations Manual *shall have the meaning set forth in Section 2 of Schedule 2 to Annex I*

Permitted Account(s) *shall have the meaning set forth in Section 4(d) of Annex I*

Permitted Designee *shall have the meaning set forth in Section 3.12(c)*

Plan of the Nation *shall have the meaning set forth in Section 1(a) of Annex I*

Pledge *shall have the meaning set forth in Section 3(c)(i)(8) of Annex I*

Principal Representative *shall have the meaning set forth in Section 5 2*

Procurement Agent *shall have the meaning set forth in Section 3(i) of Annex I*

Procurement Agent Agreement *shall have the meaning set forth in Section 3(i) of Annex I*

Procurement Guidelines *shall have the meaning set forth in Section 3 16(a)*

Procurement Plan *shall have the meaning set forth in Section 3(i) of Annex I*

Production and Business Services Activity *shall have the meaning set forth in Section 2(a) of Schedule 2 to Annex I*

Productive Development Objective *shall have the meaning set forth in Section 1 1(b)*

Productive Development Project *shall have the meaning set forth in the Preamble of Schedule 2 to Annex I*

PROGARA *shall have the meaning set forth in Section 2(c)(i)(1) of Schedule 2 to Annex I*

Program *shall have the meaning set forth in the Recitals*

Program Annex *shall have the meaning set forth in the Preamble of Annex I*

Program Assets *shall have the meaning set forth in Section 2 3(e)(iii)*

Project *shall have the meaning set forth in Section 1 2*

Project Activity *shall have the meaning set forth in Section 2(a) of Annex I*

PRONORTE Service Providers *shall have the meaning set forth in Section 2(a) of Schedule 2 to Annex I*

Proposal *shall have the meaning set forth in the Recitals*

Provider *shall have the meaning set forth in Section 2 4(b)*

Publication Period (Vacatio Legis) *means the period of time commencing on the date of publication of the Compact in the Official Gazette of El Salvador and terminating on the eighth day thereafter*

RAP *shall have the meaning set forth in Section 6(b) of Annex I*

Re-Disbursement *shall have the meaning set forth in Section 2 1(b)(ii)*

Reglamento *shall have the meaning set forth in Section 3 10*

Reviewer *shall have the meaning set forth in Section 3(h) of Annex I*

Rural Electrification Sub-Activity *shall have the meaning set forth in Section 2(b)(ii) of Schedule 1 to Annex I*

SEA *shall have the meaning set forth in Section 6(a) of Annex I*

SGR *shall have the meaning set forth in Section 2(c)(i)(2) of Schedule 2 to Annex I*

SIGET *shall have the meaning set forth in Section 6 of Schedule 1 to Annex I*

SINAMA *shall have the meaning set forth in Section 6(f) of Annex I*

Special Account *shall have the meaning set forth in Section 4(d)(i) of Annex I*

Supplemental Agreement *shall have the meaning set forth in Section 3 15(b)*

Supplemental Agreement between the Parties *means any agreement between MCC on the one hand and the Government, any Government Affiliate or any Permitted Designee on the other hand*

Supplemental Agreement Term Sheets *shall have the meaning set forth in Section 4 1(b)*

Target *shall have the meaning set forth in Section 2(a) of Annex III*

Tax(es) *shall have the meaning set forth in Section 2.3(c)(i)*

Technical Assistance Sub-Activity *shall have the meaning set forth in Section 2(a)(i) of Schedule 1 to Annex I*

UFI *shall have the meaning set forth in Section 3(g)(i) of Annex I*

USAID *means the United States Agency for International Development*

United States Dollars *(US$ or $) shall have the meaning set forth in Section 2.1(d)*

United States Government *means any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States*

VAT *shall have the meaning set forth in Section 2.3(e)(i)(4)*

Voting Members *shall have the meaning set forth in Section 3(d)(ii)(2)(4) of Annex I*

Water and Sanitation Sub-Activity *shall have the meaning set forth in Section 2(b)(i) of Schedule 1 to Annex I*

Work Plan *shall have the meaning set forth in Section 3(a) of Annex I*

EXHIBIT B

LIST OF CERTAIN SUPPLEMENTAL AGREEMENTS

1 Procurement Agent Agreement

2 Implementing Entity Agreements

3 Bank Agreements

4 Fiscal Oversight Agreement

SCHEDULE 2.1(a)(iii)

DESCRIPTION OF COMPACT IMPLEMENTATION FUNDING

Compact Implementation Funding

The Compact Implementation Funding provided pursuant to Section 2.1(a)(iii) shall support the following activities and expenditures in an amount not to exceed the amount specified in Section 2.1(a)(iii)

(a) Payments for reasonable and normal staff salaries and administrative expenses of FOMILENIO (or mutually acceptable Government Affiliate) such as rent, equipment, information technology expenses and furniture,

(b) Conduct fiscal and procurement administration activities,

(c) A gender assessment in connection with the Human Development Project under Section 2(a) of Schedule 1 to Annex I,

(d) Any design and supplemental environmental assessment (EIA, EMP or RAP studies) determined necessary by MCC in connection with the Connectivity Project,

(e) Data collection in connection with M&E activities, and

(f) Other Compact implementation expenses approved by MCC

ANNEX I

PROGRAM DESCRIPTION

This Annex I to the Compact (this "***Program Annex***") generally describes the Program that MCC Funding will support in El Salvador during the Compact Term and the results to be achieved from the investment of MCC Funding Prior to any MCC Disbursement or Re-Disbursement, including for the Projects described herein, MCC, the Government (or a mutually acceptable Government Affiliate) and FOMILENIO shall enter into the Disbursement Agreement, which agreement shall be in form and substance mutually satisfactory to the Parties, and signed by the Principal Representative of each Party (or in the case of a Government Affiliate, the principal representative of such Government Affiliate) and of FOMILENIO

Except as specifically provided herein, the Parties may amend this Program Annex only by written agreement signed by the Principal Representative of each Party Each capitalized term used but not defined in this Program Annex shall have the same meaning given such term elsewhere in this Compact Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of this Compact

1. Background; Consultative Process.

(a) Background Located in Central America, bordering the North Pacific Ocean, between Guatemala and Honduras, El Salvador is a country of approximately 6 9 million people Approximately 35 percent of its population lives in poverty, with a high incidence of extreme poverty in rural areas El Salvador's civil conflict of the 1980s cost the lives of over 70 000 Salvadorans and destroyed much of the country's infrastructure The rural areas, particularly in the northern region of the country, were most affected During those war years, human capital formation lagged, GDP declined, public investment was deferred, deterioration of the natural resource base accelerated, and migration to the United States increased By the end of the 1980s, about two-thirds of the Salvadoran population was living in poverty In 1989, a new government embarked on a major stabilization and structural adjustment program and initiated peace negotiations, reaching a Peace Accord in early 1992 El Salvador has made substantial progress in improving its economic and social conditions and building its democratic institutions in the last 20 years, nonetheless, a significant portion of its population remains in poverty, without access to good jobs or basic social services, and continuing environmental deterioration poses risks for sustainable development

The Program focuses on the Northern Zone, a region that includes one-half of El Salvador's poorest municipalities, that suffered more than any other from the 1980s civil conflict, and that has substantial unrealized potential for sustainable development The Northern Zone is also an important source of water, energy, biodiversity and environmental resources of El Salvador and Central America The Objectives were designed to advance El Salvador's fulfillment of the broadly shared aspiration to unite the northern third of the national territory with the rest of the country and lift this isolated region's people out of poverty

During the past eight years, the non-partisan Commission for National Development ("***CND***") has been leading a public dialogue on a new vision for El Salvador's development CND was created by an Executive Decree in 1996, to foster such a new vision through a process of citizen participation CND has produced a shared national development strategy setting forth a vision for development of each of the five regions of El Salvador including the Northern Zone (the

"***Plan of the Nation***") In response to the Plan of the Nation and based on consultation with local governments, private enterprise and civil society, the Government developed a plan for developing the Northern Zone (the "***Northern Zone Investment Plan***"), encompassing three major themes (i) strengthening human development, (ii) developing productive potential, and (iii) increasing physical connectivity These three themes formulated the basis for the Proposal, with MCC Funding comprising a major portion of the funds necessary to achieve the goals of the Northern Zone Investment Plan

(b) Consultative Process The Government's broad development strategy for the Northern Zone and the Northern Zone Investment Plan were a direct result of the extensive consultation process led by CND while developing the Plan of the Nation To develop their Proposal, the Government refined the Northern Zone Investment Plan based on input received in a series of consultations with various stakeholders and interested parties, both within the Northern Zone and throughout the country, including with local mayors, private sector representatives, academic experts, international donors, multilateral development organizations, sector specialists and the general public Building on the strong record of public participation in national development planning, CND utilized five different approaches to ensure fulfillment of MCC's requirements for a publicly-driven and widely-consulted development program (i) *General* – town hall meetings held in major cities around the nation, (ii) *Specialized* – roundtable discussions with experts on gender environment, connectivity, and other key topics, (iii) *Territorial* – consultations with municipal officials, community leaders, small producers, local NGOs, and other residents of the northern corridor of El Salvador, (iv) *Interest Groups* – consultations with private sector representatives women, Salvadorans abroad, and entrepreneurs, and (v) *Institutional* – consultations with mayors, government officials, NGOs, and international cooperation agencies

The MCC-specific consultative process began in January 2006, and included more than 50 formal workshops and informal discussions with over 2,200 Salvadorans The comments, concerns and suggestions of participants in these consultations are documented in the "Final Report on the Consultative Process" prepared by CND (available on the FOMILENIO Website)

The Government's consultative efforts regarding the Program are ongoing and will continue throughout the Compact Term CND is responsible for executing the Government's consultation plan, which includes both formal and informal interaction with various stakeholders and interested parties, both within the Northern Zone and throughout the rest of the country Following submission of the Proposal to MCC, the Government, with the assistance of CND, engaged in outreach efforts focused on disseminating information on Program goals and objectives and on the implementation process Such outreach efforts are undertaken through consultation events as well as through the FOMILENIO Website Participants in such consultations are encouraged to remain actively engaged in oversight and implementation of the Program by defining their roles and responsibilities as stakeholders and coordinating a long-term schedule for future interaction

2. Overview.

(a) Projects The Parties have identified the interrelated, component Projects that the Government will implement, or cause to be implemented, using MCC Funding to advance each Objective and the Compact Goal Each component Project is generally described in the Schedules to this Program Annex The Schedules to this Program Annex also identify one or

more of the activities that will be undertaken in furtherance of each Project (each, a "***Project Activity***") as well as the various activities within each Project Activity. Notwithstanding anything to the contrary in this Compact, the Parties may agree to modify, amend, terminate or suspend these Projects or to create a new project by written agreement signed by the Principal Representative of each Party without amending this Compact, *provided, however*, any such modification or amendment of a Project or creation of a new project shall (i) be consistent with the Objectives, (ii) not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1 of this Compact, (iii) not cause the Government's responsibilities or contribution of resources to be less than specified in Section 2.2 of this Compact or elsewhere in this Compact, and (iv) not extend the Compact Term.

(b) Beneficiaries. The intended beneficiaries of each Project are described in the respective Schedule to this Program Annex and Annex III to the extent identified as of the date hereof. The intended beneficiaries shall be identified more precisely during the initial phases of implementation of the Program. The Government shall provide to MCC information on the population of the areas in which the Projects will be active, disaggregated by gender, income level and age. The Parties shall agree upon the description of the intended beneficiaries and the Parties will make publicly available a more detailed description of the intended beneficiaries of the Program, including publishing such description on the FOMILENIO Website.

(c) Civil Society. Civil society shall participate in overseeing the implementation of the Program through its representation on the Board and the Advisory Council, as provided in Section 3(d) and Section 3(e), respectively, of this Program Annex. In addition, ongoing consultations with civil society regarding the manner in which each Project is being implemented will take place throughout the Compact Term.

(d) Monitoring and Evaluation. Annex III generally describes the plan to measure and evaluate progress toward achievement of the Compact Goal and the Objectives (the "***M&E Plan***"). As outlined in the Disbursement Agreement and other Supplemental Agreements, continued disbursement of MCC Funding under this Compact (whether as MCC Disbursements or Re-Disbursements) shall be contingent on, among other things, successful achievement of certain Targets as set forth in the M&E Plan.

3. Implementation Framework.

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring and evaluation ("***M&E***") and fiscal accountability for the use of MCC Funding is summarized below and in the Schedules attached to this Program Annex, and as may otherwise be agreed in writing by the Parties.

(a) General. The elements of the implementation framework will be further described in the Supplemental Agreements and in a set of detailed documents for the implementation of the Program, consisting of (i) a Multi-Year Financial Plan, (ii) a Fiscal Accountability Plan, (iii) a Procurement Plan, (iv) an M&E Plan, and (v) a Work Plan (each, an "***Implementation Document***"). FOMILENIO shall adopt each Implementation Document in accordance with the requirements and timeframe as may be specified in this Program Annex, Annex II, Annex III, the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time. FOMILENIO may amend any Implementation Document without amending this Compact *provided, however*, that any material amendment of such Implementation

Document has been previously approved by MCC and is otherwise consistent with the requirements of this Compact and any Supplemental Agreement By such time as may be specified in the Disbursement Agreement, or as may otherwise be agreed by the Parties from time to time, FOMILENIO shall adopt a work plan for the overall administration of the Program (the "***Work Plan***") The Work Plan shall set forth, with respect to (i) the administration of the Program, (ii) the monitoring and evaluation of the Program, and (iii) the implementation of each Project, the following (1) each activity to be undertaken or funded by MCC Funding (to the level of detail mutually acceptable to FOMILENIO and MCC), (2) the Detailed Budget, and (3) where appropriate, the allocation of roles and responsibilities for specific activities, other programmatic guidelines, performance requirements, targets, and other expectations related thereto

(b) Government

(i) The Government shall promptly take all necessary and appropriate actions to carry out the Government Responsibilities and other obligations or responsibilities of the Government under and in furtherance of this Compact, including undertaking or pursuing such legal, legislative or regulatory actions or procedural changes and contractual arrangements as may be necessary or appropriate to achieve the Objectives, to successfully implement the Program, to designate any rights or responsibilities to any Permitted Designee, to approve and promulgate the Law Creating FOMILENIO and to promulgate the Reglamento FOMILENIO shall be a Permitted Designee and shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government The Government shall promptly deliver to MCC certified copies of any documents, orders, decrees, laws or regulations evidencing such legal, legislative, regulatory, procedural, contractual or other actions

(ii) The Government shall ensure that FOMILENIO is duly authorized and organized, sufficiently staffed and empowered to carry out fully the Designated Rights and Responsibilities Without limiting the generality of the preceding sentence, FOMILENIO shall be organized, and have such roles and responsibilities, as described in Section 3(d) of this Program Annex and Sections 3 1 to 3 10 of this Compact and as provided in any other Governing Documents

(c) MCC

(i) Notwithstanding Section 3 11 of this Compact or any provision in this Program Annex to the contrary, and except as may be otherwise agreed upon by the Parties from time to time, MCC must approve in writing each of the following transactions, activities agreements and documents prior to the execution or carrying out of such transaction, activity, agreement or document and prior to MCC Disbursements or Re-Disbursements in connection therewith

(1) MCC Disbursements,

(2) Each Implementation Document (including each component thereto) and any material amendments and supplements thereto,

(3) Any Audit Plan,

(4) Agreements (i) between the Government and FOMILENIO, (ii) between the Government, a Government Affiliate, FOMILENIO or any other Permitted Designee, on the one hand, and any Provider or Affiliate of a Provider, on the other hand, which require such MCC approval under applicable law, the Disbursement Agreement, any Governing Document, or any other Supplemental Agreement, or (iii) in which the Government, a Government Affiliate, FOMILENIO or any other Permitted Designee appoints, hires, or engages any of the following in furtherance of this Compact

(A) Auditor,

(B) Reviewer,

(C) Fiscal Agent,

(D) Fiscal Oversight Agent,

(E) Procurement Agent,

(F) Bank,

(G) Implementing Entity, and

(H) A member of the Board (including any Observer), any Officer or any other key employee of FOMILENIO (including agreements involving the terms of any compensation for any such person)

(Any agreement described in clause (i) through (iii) of this Section 3(c)(i)(4) of this Program Annex and any amendments and supplements thereto, each, a "***Material Agreement***"),

(5) Any material modification, termination or suspension of a Material Agreement, or any action that would have the effect of such a modification, termination or suspension of a Material Agreement,

(6) Any agreement that is (A) not at arm's length or (B) with a party related to the Government, FOMILENIO or any of their respective Affiliates,

(7) Any Re-Disbursement that requires such MCC approval under applicable law, any Governing Document, or any other Supplemental Agreement (each, a "***Material Re-Disbursement***"),

(8) Any pledge of any MCC Funding or any Program Assets, or any guarantee, directly or indirectly, of any indebtedness (each, a ***Pledge***"),

(9) Any Governing Document,

(10) Any disposition in whole or in part liquidation, dissolution, winding up, reorganization or other change of (A) FOMILENIO including any revocation or modification of or supplement to any Governing Document related thereto, or (B) any subsidiary or Affiliate of FOMILENIO,

(11) Any change in character or location of any Permitted Account,

(12) Formation or acquisition of any direct or indirect subsidiary, or other Affiliate, of FOMILENIO,

(13) (A) Any change of any member of the Board (including any Observer), of the member serving as the Chair or in the composition or size of the Board, and the filling of any vacant seat of any member of the Board (including any Observer), (B) any change of any Officer or other key employee of FOMILENIO (as determined by MCC) or in the composition or size of the Management, and the filling of any vacant position of any Officer or other key employee of FOMILENIO (as determined by MCC), and (C) any material change in the composition or size of the Advisory Council,

(14) Any decision by FOMILENIO to engage, to accept or to manage any funds from any donor agencies or organizations in addition to MCC Funding during the Compact Term,

(15) Any decision to amend, supplement, replace, terminate, or otherwise change any of the foregoing, and

(16) Any other activity, agreement, document or transaction requiring the approval of MCC in this Compact, applicable law, any Governing Document, the Disbursement Agreement, or any other Supplemental Agreement between the Parties

(ii) MCC shall have the authority to exercise its approval rights set forth in this Section 3(c) of this Program Annex in its sole discretion and independent of any participation or position taken by the MCC Representative at a meeting of the Board MCC retains the right to revoke its approval of any matter, agreement, or action if MCC concludes, in its sole discretion, that its approval was issued on the basis of incomplete, inaccurate or misleading information furnished by the Government, any Government Affiliate, FOMILENIO or any other Permitted Designee Notwithstanding any provision in this Compact or any Supplemental Agreement to the contrary, the exercise by MCC of its approval or no-objection rights under this Compact or any Supplemental Agreement shall not (A) diminish or otherwise affect the Government Responsibilities or any other obligations or responsibilities of the Government under this Compact or any Supplemental Agreement, (B) transfer any such obligations or responsibilities of the Government, or (C) otherwise subject MCC to any liability

(d) FOMILENIO

(i) General FOMILENIO shall, as a Permitted Designee be responsible for the oversight and management of the implementation of this Compact FOMILENIO shall be governed by the provisions of this Compact the Law Creating FOMILENIO, the Reglamento, and any other decree, legislation or regulation governing FOMILENIO (collectively, the "***Governing Documents***") and by applicable law Each Governing Document shall be in form and substance satisfactory to MCC and the Government and based on the following principles

(1) The Government shall ensure that FOMILENIO shall not assign, delegate or contract any of the Designated Rights and Responsibilities without the prior written consent of the Government and MCC FOMILENIO shall not establish any Affiliates or subsidiaries (direct or indirect) without the prior written consent of the Government and MCC

(2) Unless otherwise agreed by the Parties in writing, FOMILENIO shall consist of (A) a board of directors to oversee FOMILENIO's responsibilities and obligations under this Compact (including any Designated Rights and Responsibilities) and (B) a management unit to have overall management responsibility for the implementation of this Compact

(3) The Government shall ensure that the Governing Documents comply with the requirements set forth in this Program Annex

(ii) Board

(1) Formation The Government shall ensure that the Board shall be formed, constituted, governed and operated in accordance with the terms and conditions set forth in the Compact, the Governing Documents and any Supplemental Agreement

(2) Composition Unless otherwise agreed by the Parties in writing, the Board shall consist of at least seven (7) but no more than eleven (11) voting members and at least two (2) non-voting Observers

(A) The Board members designated by the Government shall be referred to herein as the "***Government Members***" The other Board members shall be referred to herein as the "***Civil Members***" Collectively, the Government Members and the Civil Members shall be referred to herein as the "***Voting Members***" The non-voting Observers of the Board shall be the MCC Representative, and any other non-voting Observer designated from time to time

(B) A Government Member may be replaced by another government official from a ministry or other government body relevant to the Program activities pursuant to the Governing Documents, subject to the prior receipt of a no-objection notice from MCC (such replacement to be referred to thereafter as a Government Member)

(C) Each Government Member position (other than the Chair) shall be filled by the individual, during the Compact Term holding the office identified and all Government Members (including the Chair) shall serve in their capacity as the applicable Government officials and not in their personal capacity

(D) The Voting Members, by majority vote, may alter the size of the Board in accordance with the Governing Documents so long as the total does not exceed eleven (11) members

(E) Each Observer shall have rights to attend all meetings of the Board, participate in the discussions of the Board, and receive all information and documents provided to the Board, together with any other rights of access to records,

employees or facilities as would be granted to a member of the Board under the Governing Documents

(F) The Voting Members shall exercise their duties solely in accordance with the best interests of FOMILENIO, the Program, the Compact Goal and the Objectives, and shall not undertake any action that is contrary to those interests or would result in personal gain or a conflict of interest

(3) Roles and Responsibilities The roles and responsibilities of the Board shall include the following

(A) The Board shall oversee the Management, the overall implementation of the Program, and the performance of the Designated Rights and Responsibilities

(B) Certain actions may be taken and certain agreements, documents or instruments executed and delivered, as the case may be, by FOMILENIO only upon the approval and authorization of the Board as provided under applicable law or as set forth in any Governing Document, including each MCC Disbursement Request, selection or termination of certain Providers and any Implementation Document

(C) The Chair, unless otherwise provided in the applicable Governing Documents or Supplemental Agreements, shall certify any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties (the "***Compact Reports***") or any other documents or reports from time to time delivered to MCC by FOMILENIO (whether or not such documents or reports are required to be delivered to MCC), and that such documents or reports are true, correct and complete

(D) Without limiting the generality of the Designated Rights and Responsibilities that the Government may designate to FOMILENIO, and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex, elsewhere in this Compact or any Supplemental Agreement, the Board shall have the exclusive authority as between the Board and the Management for all actions defined for the Board in any Governing Document and which are expressly designated therein as responsibilities that cannot be delegated further

(E) Meet with and exchange information with the Advisory Council, as contemplated in Section 3(e) of this Program Annex Without limiting the generality of the foregoing, the Board shall take the Advisory Council's suggestions

into consideration in connection with any amendment to the M&E Plan, pursuant to Section 5(b) of Annex III

(4) Indemnification of Observers The Government shall ensure, at the Government's sole cost and expense, that appropriate insurance is obtained and appropriate indemnifications and other protections are provided, acceptable to MCC and to the fullest extent permitted under the laws of El Salvador, to ensure that the Observers shall not be held personally liable for the actions or omissions of the Board or FOMILENIO Pursuant to Section 5 5 and Section 5 8 of this Compact, the Government and FOMILENIO shall hold harmless the MCC Representative for any liability or action arising out of the MCC Representative's role as an Observer on the Board The Government hereby waives and releases all claims related to any such liability and acknowledges that the MCC Representative has no fiduciary duty to FOMILENIO In matters arising under or relating to this Compact, the MCC Representative is not subject to the jurisdiction of the courts or any other governmental body of El Salvador FOMILENIO shall provide a written waiver and acknowledgement that no fiduciary duty to FOMILENIO is owed by the MCC Representative

(iii) Management Unless otherwise agreed in writing by the Parties, the Management shall report, through the Executive Director or other Officer as designated in any Governing Document, directly to the Board and shall have the composition, roles and responsibilities described below and set forth more particularly in the Governing Documents

(1) Composition The Government shall ensure that the Management shall be composed of qualified experts from the public or private sectors, including such offices and staff as may be necessary to carry out effectively its responsibilities, each with such powers and responsibilities as set forth in the Governing Documents, and from time to time in any Supplemental Agreement between the Parties, including the following (A) Executive Director, (B) Deputy Executive Director, (C) Internal Auditor, (D) Legal Counsel, (E) Administrative Director, (F) Director of Technology and Information, (G) Director of Program Implementation, (H) Coordinator of the Human Development Component, (I) Coordinator of the Productive Development Component, (J) Coordinator of the Connectivity Component, (K) Director of the Procurement Program, (L) Director of Monitoring and Evaluation, (M) Financial and Institutional Director, (N) Director of Environmental and Social Impact, and (O) Director of Communications Each person holding the position in any of the sub-clauses (A) through (O), and such other offices as may be created and designated in accordance with any Governing Document and any Supplemental Agreement, shall be referred to as an "***Officer***" The Management shall be supported by appropriate administrative and support personnel consistent with the Detailed Budget for Program administration and any Implementation Document

(2) Appointment of Officers The Executive Director shall be selected after an open and competitive recruitment and selection process, and appointed in accordance with the Governing Documents, which appointment shall be subject to MCC approval Such appointment shall be further evidenced by such document as the Parties may agree Unless otherwise specified in the Governing Documents, or any Supplemental Agreement between the Parties, the Officers of FOMILENIO other than the Executive Director shall be selected and hired by the Board after an open and competitive recruitment and selection process and appointed in accordance with the Governing Documents, which appointment shall be subject to MCC approval Such appointment shall be further evidenced by such document as the Parties may agree

(3) Roles and Responsibilities The roles and responsibilities of the Management shall include

(A) The Management shall assist the Board in overseeing the implementation of the Program and shall have principal responsibility (subject to the direction and oversight of the Board and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any Supplemental Agreement) for the overall management of the implementation of the Program

(B) Without limiting the foregoing general responsibilities or the generality of the Designated Rights and Responsibilities that the Government may designate to FOMILENIO, the Management shall develop each Implementation Document, oversee the implementation of the Projects, manage and coordinate monitoring and evaluation, ensure compliance with the Fiscal Accountability Plan, and such other responsibilities as set out in the Governing Documents or otherwise delegated to the Management by the Board from time to time

(C) Appropriate Officers as designated in the Governing Documents shall have the authority to contract on behalf of FOMILENIO under any procurement undertaken in accordance with the Disbursement Agreement (including the Procurement Guidelines) in furtherance of the Program

(D) The Management shall have the obligation and right to approve certain actions and documents or agreements, including certain Re-Disbursements, MCC Disbursement Requests, Compact Reports, certain human resources decisions and certain other actions, as provided in the Governing Documents

(e) Advisory Council

(i) Formation The Government shall ensure the establishment of the Advisory Council by the Board which Advisory Council shall be independent from FOLIMENIO and shall be established to the satisfaction of MCC The Government shall take all steps necessary to establish the Advisory Council as soon as possible following the execution of this Compact

(ii) Composition The Advisory Council shall be comprised unless otherwise agreed by the Parties, of the following members (A) five representatives of CND, (B) three members of the Northern Zone mayoral council, and (C) a representative of Northern Zone civil society The Government shall take all actions necessary and appropriate to ensure that the Advisory Council is established consistent with this Section 3(e) of this Program Annex and as otherwise specified in the Governing Documents or otherwise agreed in writing by the Parties

The composition of the Advisory Council may be adjusted by agreement of the Parties from time to time to ensure, among other things, an adequate representation of the intended beneficiaries of the Program Each member of the Advisory Council may appoint an alternate, approved by majority vote of the other members, to serve when the member is unable to participate in a meeting of the Advisory Council

(iii) Roles and Responsibilities The Advisory Council shall be a mechanism to provide representatives of the private sector, civil society and local government the opportunity to provide advice and input to FOMILENIO regarding the implementation of this Compact FOMILENIO shall provide to the Advisory Council such information and documents as it deems advisable, subject to appropriate treatment of such information and documents by the members of the Advisory Council During each meeting of the Advisory Council, FOMILENIO shall present an update on the implementation of this Compact and progress towards achievement of the Objectives The Advisory Council shall have an opportunity to provide regularly to FOMILENIO its views or recommendations on the performance and progress on the Projects and Project Activities, any Implementation Document, procurement, financial management or such other issues as may be presented from time to time to the Advisory Council or as otherwise raised by the Advisory Council

(iv) Meetings The Advisory Council shall meet with the Board at least once every three months, as well as at such other periodic meetings as may be necessary or appropriate from time to time The Advisory Council shall hold at least two general meetings per year, as well as such other periodic meetings as may be necessary or appropriate from time to time Representatives of banking organizations, microfinance institutions, farmer associations, women's associations, chambers of commerce, anti-corruption associations and environmental and social organizations ("***Civil Society Stakeholders***"), among others, shall be provided timely advance notice of all such general meetings, invited to participate in all such meetings and afforded an opportunity during each such meeting to present their views or recommendations to the Advisory Council

(v) Accessibility, Transparency The members of the Advisory Council shall be accessible to the beneficiaries they represent to receive the beneficiaries' comments or suggestions regarding the Program The notices for, and the minutes (including the views or recommendations of Civil Society Stakeholders expressed) of all general meetings of, the Advisory Council shall be made public on the FOMILENIO Website or otherwise (including television, radio and print) in a timely manner

(f) Implementing Entities Subject to the terms and conditions of this Compact and any other Supplemental Agreement between the Parties, FOMILENIO may engage one or more (i) pre-determined ministries, bureaus or agencies of the Government based on their sector expertise, or (ii) government bodies, businesses NGOs, vendors or contractors selected according to the Procurement Guidelines, to implement and carry out any Project, Project Activity (or a component thereof), or any other activities to be carried out in furtherance of this Compact (each, an "***Implementing Entity***") The Government shall ensure that FOMILENIO enters into an agreement with each Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions (including the payment of the Implementing Entity, if any) (an "***Implementing Entity Agreement***") An Implementing Entity shall report directly to the

relevant Officer, as designated in the applicable Implementing Entity Agreement or as otherwise agreed by the Parties

(g) Fiscal Matters

(i) Fiscal Agent The Government shall ensure that, pursuant to the Reglamento or any other Governing Document as necessary, FOMILENIO appoints its financial management unit (*Unidad Financiera Institucional*) ("***UFI***") as its fiscal agent (a "***Fiscal Agent***") and grants to UFI all power and rights necessary to perform the function of the Fiscal Agent, as such are set forth herein, in the Fiscal Accountability Plan and in any Supplemental Agreement or Implementation Letter The Fiscal Agent shall be responsible for, among other things (1) assisting FOMILENIO in preparing the Fiscal Accountability Plan, (2) ensuring and certifying that Re-Disbursements are properly authorized and documented in accordance with established control procedures set forth in the Disbursement Agreement and other Supplemental Agreements, (3) Re-Disbursement from, and cash management and account reconciliation of, any Permitted Account established and maintained for the purpose of receiving MCC Disbursements and making Re-Disbursements (to which the Fiscal Agent has sole signature authority), (4) providing applicable certifications for MCC Disbursement Requests, (5) maintaining and retaining proper accounting, records and document disaster recovery system of all MCC-funded financial transactions and certain other accounting functions, (6) producing reports on MCC Disbursements and Re-Disbursements (including any requests therefor) in accordance with established procedures set forth in the Disbursement Agreement, the Fiscal Accountability Plan, or any other Supplemental Agreements, (7) assisting in the preparation of budget development procedures, and (8) internal management of the Fiscal Agent operations Upon the written request of MCC for UFI to be replaced as the Fiscal Agent, the Government shall ensure that FOMILENIO engages a new Fiscal Agent, subject to approval by the Board and MCC, *provided, however*, that the Government shall ensure that UFI continue to perform its obligations as the Fiscal Agent until FOMILENIO has engaged a successor Fiscal Agent In the event that a party other than UFI is the Fiscal Agent, upon the written request of MCC the Government shall ensure that FOMILENIO terminates the Fiscal Agent, without any liability to MCC, and the Government shall ensure that FOMILENIO engages a new Fiscal Agent, subject to approval by the Board and MCC The Government shall ensure that FOMILENIO enters into an agreement with each Fiscal Agent other than UFI, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent (each, a "***Fiscal Agent Agreement***") Such Fiscal Agent Agreement shall not be terminated until FOMILENIO has engaged a successor Fiscal Agent or as otherwise agreed by MCC in writing

(ii) Fiscal Oversight Agent The Government shall ensure that FOMILENIO engages an agent through an international competitive process (the "***Fiscal Oversight Agent***") to carry out and certify certain financial management activities in furtherance of this Compact The role and responsibilities of such Fiscal Oversight Agent and the criteria for selection of a Fiscal Oversight Agent shall be as set forth in the applicable Implementation Letter or Supplemental Agreement The Government shall ensure that FOMILENIO enters into an agreement with the Fiscal Oversight Agent, in form and substance satisfactory to MCC, that sets forth (1) the roles and responsibilities of the Fiscal Oversight Agent with respect to the oversight of the Fiscal Agent and the monitoring and review of the Fiscal Agent's compliance with the Fiscal Accountability Plan, and (2) other appropriate terms and conditions, such as payment of the Fiscal Oversight Agent (the "***Fiscal Oversight Agreement***")

(h) Auditors and Reviewers The Government shall ensure that FOMILENIO carries out the Government's audit responsibilities as provided in Sections 3 18(d), (e) and (f) of this Compact, including engaging one or more auditors (each, an "***Auditor***") required by Section 3 18(d) of this Compact As requested by MCC in writing from time to time, the Government shall ensure that FOMILENIO also engages (i) an independent reviewer to conduct reviews of performance and compliance under this Compact pursuant to Section 3 18(f) of this Compact, which reviewer shall have the capacity to (1) conduct general reviews of performance or compliance, (2) conduct environmental audits, and (3) conduct data quality assessments in accordance with the M&E Plan, as described more fully in Annex III, and/or (ii) an independent evaluator to assess performance as required under the M&E Plan (each, a "***Reviewer***") FOMILENIO shall select any such Auditor(s) and Reviewer(s) in accordance with any Governing Document or other Supplemental Agreement The Government shall ensure that FOMILENIO enters into an agreement with each Auditor and each Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer (the "***Auditor/Reviewer Agreement***") In the case of a financial audit required by Section 3 18(d) of this Compact, such Auditor/Reviewer Agreement shall be effective no later than one hundred and twenty (120) days prior to the end of the relevant period to be audited, *provided, however*, if MCC requires concurrent audits of financial information or reviews of performance and compliance under this Compact, then such Auditor/Reviewer Agreement shall be effective no later than the date agreed by the Parties in writing

(i) Procurement Agent The Government shall ensure that FOMILENIO engages one or more procurement agents through an international competitive process (each, a "***Procurement Agent***") to carry out and certify specified procurement activities in furtherance of this Compact on behalf of the Government, FOMILENIO, or the Implementing Entity The roles and responsibilities of each Procurement Agent and the criteria for selection of a Procurement Agent shall be as set forth in the applicable Implementation Letter or Supplemental Agreement The Government shall ensure that FOMILENIO enters into an agreement with each Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent (each, a "***Procurement Agent Agreement***") Any Procurement Agent shall adhere to the procurement standards set forth in the Disbursement Agreement and the Procurement Guidelines and ensure procurements are consistent with the procurement plan adopted by FOMILENIO pursuant to the Disbursement Agreement (the "***Procurement Plan***"), unless FOMILENIO and MCC otherwise agree in writing

4. Finances and Fiscal Accountability.

(a) Multi-Year Financial Plan, Detailed Budget

(i) Multi-Year Financial Plan The multi-year financial plan for the Program, showing the estimated amount of MCC Funding allocable to each Project (and related Project Activities), the administration of the Program (and its components) and the monitoring and evaluation of the Program (the "***Multi-Year Financial Plan***") over the Compact Term on an annual basis, is summarized in Annex II to this Compact

(ii) Detailed Budget During the Compact Term, the Government shall ensure that FOMILENIO timely delivers to MCC a detailed budget, at a level of detail and in a format acceptable to MCC, for the administration of the Program, the monitoring and evaluation of the Program, and the implementation of each Project (the "***Detailed Budget***") The Detailed Budget shall be a component of the Work Plan and shall be delivered by such time as specified in the Disbursement Agreement, or as may otherwise be agreed by the Parties

(iii) Expenditures Unless the Parties otherwise agree in writing, no financial commitment involving MCC Funding shall be made, no obligation of MCC Funding shall be incurred, and no Re-Disbursement shall be made or MCC Disbursement Request shall be submitted for any activity or expenditure unless the expense for such activity or expenditure is provided for in the Detailed Budget, and unless uncommitted funds exist in the balance of the Detailed Budget for the relevant period

(iv) Modifications to Multi-Year Financial Plan or Detailed Budget Notwithstanding anything to the contrary in this Compact, FOMILENIO may amend the Multi-Year Financial Plan, the Detailed Budget, or any component thereof (including any amendment that would reallocate the funds among the Projects, the Project Activities, or any activity under Program administration or M&E as shown in Annex II), without amending this Compact so long as FOMILENIO requests in writing and receives the approval of MCC for such amendment and such amendment is consistent with the requirements of this Compact (including Section 4 of Annex II), the Disbursement Agreement and any other Supplemental Agreement between the Parties Any such amendment shall (1) be consistent with the Objectives and the Implementation Documents, (2) shall not materially adversely impact the applicable Project, Project Activity (or any component thereof), or any activity under Program administration or M&E as shown in Annex II, (3) shall not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2 1(a) of this Compact, and (4) shall not cause the Government's obligations or responsibilities or overall contribution of resources to be less than as specified in Section 2 2(a) of this Compact, this Annex I or elsewhere in this Compact Upon any such amendment, FOMILENIO shall deliver to MCC a revised Detailed Budget, together with a revised Multi-Year Financial Plan, reflecting such amendment, along with the next MCC Disbursement Request

(b) Disbursement and Re-Disbursement The Disbursement Agreement, as amended from time to time, shall specify the terms, conditions and procedures on which MCC Disbursements and Re-Disbursements shall be made The obligation of MCC to make MCC Disbursements or approve Re-Disbursements is subject to the fulfillment, waiver or deferral of any such terms and conditions The Government and FOMILENIO shall jointly submit the applicable request for an MCC Disbursement (the "***MCC Disbursement Request***") as may be specified in the Disbursement Agreement MCC will make MCC Disbursements in tranches to a Permitted Account from time to time as provided in the Disbursement Agreement or as may otherwise be agreed by the Parties, subject to Program requirements and performance by the Government, FOMILENIO and other relevant parties in furtherance of this Compact Re-Disbursements will be made from time to time based on requests by an authorized representative of the appropriate party designated for the size and type of Re-Disbursement in accordance with any Governing Document and Disbursement Agreement *provided however* unless otherwise agreed by the Parties in writing, no Re-Disbursement shall be made unless and until the written approvals specified herein and in any Governing Document and the Disbursement Agreement for such Re-Disbursement have been obtained and delivered to the Fiscal Agent

(c) Fiscal Accountability Plan By such time as specified in the Disbursement Agreement or as otherwise agreed by the Parties, FOMILENIO shall adopt, as part of the Implementation Documents, a plan that identifies the principles, mechanisms and procedures to ensure appropriate fiscal accountability for the use of MCC Funding provided under this Compact, including the process to ensure that open, fair, and competitive procedures will be used in a transparent manner in the administration of grants or cooperative agreements and the procurement of goods, works and services for the accomplishment of the Objectives (the "***Fiscal Accountability Plan***") The Fiscal Accountability Plan shall set forth, among others, requirements with respect to the following matters (i) Re-Disbursements, timely payment to vendors, cash management and account reconciliation, (ii) funds control and documentation, (iii) accounting standards and systems, (iv) content and timing of reports, (v) preparing budget development procedures and the Compact implementation budget, (vi) policies concerning records, document disaster recovery, public availability of all financial information and asset management, (vii) procurement and contracting practices, (viii) inventory control, (ix) the role of independent auditors, (x) the roles of fiscal agents and procurement agents, (xi) separation of duties and internal controls, and (xii) certifications, powers, authorities and delegations

(d) Permitted Accounts The Government shall establish, or cause to be established, such accounts (each, a "***Permitted Account***" and, collectively, the "***Permitted Accounts***") as may be agreed by the Parties in writing from time to time, including

(i) A single, completely separate United States Dollar interest-bearing account (the "***Special Account***") at the Central Reserve Bank of El Salvador to receive MCC Disbursements,

(ii) An account at a commercial bank in El Salvador (the "***Local Account***") to which funds deposited in the Special Account will be transferred for the purpose of making Re-Disbursements, and

(iii) Such other accounts in such banks as the Parties mutually agree upon in writing

No other funds shall be commingled in a Permitted Account other than MCC Funding and Accrued Interest thereon All MCC Funding held in an interest-bearing Permitted Account shall earn interest at a rate of no less than such amount as the Parties may agree in the applicable Bank Agreement or otherwise MCC shall have the right, among others, to view any Permitted Account statements and activity directly on-line, where feasible, or at such other frequency as the Parties may otherwise agree By such time as shall be specified in the Disbursement Agreement or as otherwise agreed by the Parties, the Government shall ensure that, for each Permitted Account, FOMILENIO enters into an agreement, satisfactory to MCC, with the applicable Bank that sets forth the signatory authority, access rights anti-money laundering and anti-terrorist financing provisions and other terms related to the Permitted Account (each, a "***Bank Agreement***")

5. Transparency; Accountability.

Transparency and accountability to MCC and to the beneficiaries are important aspects of the Program and the Projects Without limiting the generality of the foregoing, and in an effort to achieve the goals of transparency and accountability, the Government shall ensure that FOMILENIO

(a) Establishes an e-mail suggestion box as well as a means for other written comments that interested persons may use to communicate ideas, suggestions or feedback to FOMILENIO,

(b) Considers as a factor in its decision-making the recommendations of the Advisory Council,

(c) Develops and maintains, in a timely, accurate and appropriately comprehensive manner, the FOMILENIO Website that includes postings of information and documents in English and Spanish,

(d) Posts on the FOMILENIO Website, and otherwise makes publicly available via appropriate means (including television, radio and print), in the appropriate language the following documents or information from time to time

(i) This Compact,

(ii) All minutes of the meetings of the Board and the meetings of the Advisory Council, unless otherwise agreed by the Parties,

(iii) The M&E Plan, as amended from time to time, along with periodic reports on Program performance,

(iv) Such financial information as may be required by this Compact, the Disbursement Agreement or any other Supplemental Agreement, or as may otherwise be agreed from time to time by the Parties,

(v) All Compact Reports,

(vi) All audit reports by an Auditor and any periodic reports or evaluations by a Reviewer,

(vii) All relevant environmental impact assessments and supporting documents, and such other environmental documentation as MCC may request,

(viii) A copy of the Disbursement Agreement, as amended from time to time,

(ix) A copy of any document relating to the formation, organization and governance of FOMILENIO including all Governing Documents together with any amendments thereto, and

(x) A copy of the Procurement Guidelines, any procurement policies or procedures and standard documents, certain information derived from each Procurement Plan (as specified in the Disbursement Agreement), and all bid requests and notifications of awarded contracts

6. Environmental Accountability.

(a) The Government shall undertake and complete a strategic environmental assessment of the Northern Zone (the "***SEA***") as a condition precedent to certain MCC

Disbursements as specified in the Disbursement Agreement, and in form and substance satisfactory to MCC

(b) The Government shall ensure that FOMILENIO (or any other Permitted Designee) (i) undertakes and completes any environmental impact assessments (each, an "***EIA***"), environmental management plans (each, an "***EMP***") and resettlement action plans (each, a "***RAP***"), each in form and substance satisfactory to MCC, and as required under the laws of El Salvador, the Environmental Guidelines, this Compact or any Supplemental Agreement or as otherwise required by MCC, and (ii) undertakes to implement any environmental and social mitigation measures identified in such assessments or plans to MCC's satisfaction

(c) The Government shall commit to fund all necessary costs of environmental mitigation (including costs of resettlement) not specifically provided for in the Detailed Budget for any Project

(d) By the time specified in the Disbursement Agreement, the Government shall ensure that the Department of Environment and Natural Resources (*Ministerio del Medio Ambiente y Recursos Naturales* or "***MARN***") creates and fills at least one additional permanent staff position in each of the citizen participation, environmental assessment, and territorial organization units as described in a staffing plan that shall be acceptable to MCC The Government shall provide sufficient resources to implement the staffing plan

(e) As specified in the Disbursement Agreement, the Government shall ensure that MARN establishes, and maintains throughout the Compact Term, an interdepartmental task force concerning the environmental aspects of the Human Development Project, the Productive Development Project and the Connectivity Project

(f) As specified in the Disbursement Agreement, the Government shall ensure that MARN strengthens the environmental management system in the Northern Zone as part of the *Sistema Nacional de Gestión Ambiental* ("***SINAMA***") The municipal environmental units of SINAMA shall be capable of, among other activities, developing and enforcing municipal land-use planning ordinances consistent with the departmental territorial development plans and the *Plan Nacional de Ordenamiento y Desarrollo Territorial* The Government shall provide appropriate resources to SINAMA as described in a strengthening plan acceptable to MCC

(g) The requirement set forth in paragraphs (d), (e) and (f) shall be referred to as the "***MARN Program Requirements***"

SCHEDULE 1 to ANNEX I

HUMAN DEVELOPMENT PROJECT

This Schedule 1 generally describes and summarizes the key elements of the project that the Parties intend to implement in furtherance of the Human Development Objective (the "***Human Development Project***") Additional details regarding the implementation of the Human Development Project will be included in the Implementation Documents and in the relevant Supplemental Agreements

1. Background.

Despite progress made in recent years, significant numbers of El Salvador's poor still lack basic public services required for human development This problem is particularly acute in the Northern Zone, where an estimated 25 percent of the population (roughly 225,000 people) is not connected to water systems, over 20 percent (nearly 200,000 people) is without improved sanitation services (e g , latrines), and 28 percent (over 235,000 individuals) are without electricity service Poor community infrastructure (e g , impassable local roads) forces many rural poor to forgo opportunities to seek education, health care, or employment and thereby improve their livelihoods

Human development is also hampered by gaps and constraints in education and training The average number of years of formal education in the Northern Zone stands at 3 7 years, compared to 5 6 years in the rest of the country Fewer than one in ten children complete secondary schooling, and the quality of this education is poor As a consequence, many youth opt to migrate to other countries or to large urban centers, where, lacking skills, they remain in poverty The Government is currently implementing a national education development strategy, known as Plan 2021, intended to improve educational effectiveness, achieve universal secondary education, strengthen technical and technological education and promote the development of science and technology For this plan to succeed, additional resources are required for the Northern Zone, especially in the realm of formal secondary technical schools and non-formal skills development training

2. Summary of the Human Development Project and Related Projects Activities.

The Human Development Project is designed to increase knowledge and skills through education and skills development programs and to increase access to basic services and community infrastructure MCC Funding will support the following Project Activities

- *Education and Training* To increase the quality and capacity of formal and non-formal vocational programs to enable these programs to absorb and train greater numbers of students and expand access to more at-risk youth and young adults

- *Community Development* To increase coverage of water supply and sanitation facilities and services, to provide near universal coverage of on and off-grid electricity and to provide or improve community infrastructure to ensure local connectivity for poor communities in the Northern Zone

The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor the progress of the implementation of the

Human Development Project Performance against these benchmarks, as well as the overall impact of the Human Development Project, will be assessed and reported at the intervals to be specified in the M&E Plan, or as otherwise agreed by the Parties, from time to time The Parties expect that additional indicators will be identified during implementation of the Human Development Project The *expected results* from, and the *key benchmarks* to measure progress on, the Human Development Project, as well as the Project Activities undertaken or funded thereunder, are set forth in Annex III

Estimated amounts of MCC Funding for each Project Activity for the Human Development Project are identified in Annex II Conditions precedent to each Project Activity under the Human Development Project, and the sequencing of such Project Activities, will be set forth in the Disbursement Agreement, any other Supplemental Agreements and the relevant Implementation Documents

The following summarizes each Project Activity under the Human Development Project

(a) ***Project Activity: Education and Training (the "Education and Training Activity")***

The Education and Training Activity seeks to increase education and skill levels of the Northern Zone's poor by expanding the quality of, and access to, vocational and technical education and training It is comprised of three sub-activities technical assistance, formal technical education, and non-formal skills development

To ensure optimal execution, the Government shall ensure that an advisory committee, acceptable to MCC, is formed to provide advice, oversight, and corresponding recommendations to FOMILENIO and corresponding Implementing Entities regarding the Education and Training Activity (the "***Education and Training Advisory Committee***") The Education and Training Advisory Committee will include representatives from the private sector, NGOs, and local governments Key donors supporting the education sector also will be invited to participate as needed, to ensure strong coordination and collaboration Moreover, a gender assessment will be conducted under this Project Activity to address issues of access and meaningful participation and to inform Project Activity design and implementation, consistent with the outcomes of the SEA

(i) **Project Sub-Activity: Technical Assistance (the "*Technical Assistance Sub-Activity*")**

The Technical Assistance Sub-Activity will bolster capacity of institutions and organizations involved in policy, planning, and administration of education and training in the Northern Zone MCC Funding will be used to procure the services of a long-term technical assistance provider that will support Implementing Entities in undertaking the following

(1) Conduct a diagnostic analysis, including a gender assessment, of current conditions in formal vocational education and non-formal training programs in the Northern Zone The diagnostic will identify facilities and equipment needs, curricula and program design, criteria for selecting schools to be improved (which criteria must be approved by MCC), and other relevant parameters that will frame Compact interventions Implementation plans will be developed based on the results of the diagnostic MCC must approve

implementation plans prior to commencing execution and effecting associated disbursements, as detailed in the Disbursement Agreement

(2) Conduct a study to identify the most appropriate and feasible measures to financially sustain innovations and programs supported by MCC under the Education and Training Activity This study will include an assessment of augmenting the role of the private sector as vocational education training providers

(3) Support the formation, meetings, and activities of the Education and Training Advisory Committee The Education and Training Advisory Committee also will provide support to design and monitor interventions to be implemented in the Formal Technical Education Sub-Activity and the Non-Formal Skills Development Sub-Activity

(ii) **Project Sub-Activity: Formal Technical Education (the "*Formal Technical Education Sub-Activity*")**

The Formal Technical Education Sub-Activity aims to strengthen technical/vocational education institutions in the Northern Zone, so that more youth can gain marketable skills and thereby increase their opportunities for employment and income generation The Ministry of Education will be the principal Implementing Entity for this Sub-Activity Specifically, MCC Funding will support the following

(1) Strengthen an existing post-secondary institute in Chalatenango (the "***Chalatenango Center***") to improve teacher skills, facilities, equipment, and curriculum resources to offer improved secondary and post-secondary courses to up to 1,100 students annually by the end of the Compact Term Strengthening the Chalatenango Center will enable it to serve as a national hub for advanced technology training and a repository for instructional resources in thirty (30) or more career fields

(2) Support the strengthening of the Chalatenango Center to become a resource center for in-service and pre-service vocational teacher training, curriculum experimentation and other forms of resource development in support of the middle technical schools in the Northern Zone and throughout El Salvador More than 5,000 teachers will benefit from in-service and pre-service training, participate in demonstration vocational training programs, and share resources and learning materials with schools throughout El Salvador

(3) Support the strengthening of approximately twenty (20) middle technical schools in key municipalities (selected based on the MCC-approved criteria established under the Technical Assistance Sub-Activity) with links to the other activities funded under the Program This support will include improving the array of degree granting and non-degree granting vocational training and skills courses for youth training teachers in the use of advanced instructional technologies, linking formal education with private sector needs, capital improvements (laboratories and workshops), and purchasing needed equipment Where feasible, MCC Funding for capital improvements will leverage funding from local governments, communities private parties, neighborhood associations and other NGOs It is expected that over 9 000 students will benefit from this vocational training during the Compact Term and the quality of training delivered will be improved

(4) Establish a competitive scholarships program to reach deserving, yet poverty-stricken youth The Implementing Entity for this program will be determined on a

competitive basis It is expected that over 3,600 scholarships will be granted with MCC Funding for post-secondary and, primarily, middle technical school attendance under the Formal Technical Education Sub-Activity

(iii) **Project Sub-Activity: Non-Formal Skills Development (the "*Non-Formal Skills Development Sub-Activity*")**

The Non-Formal Skills Development Sub-Activity will complement the Formal Technical Education Sub-Activity by supporting non-credit, short term and pre-employment training offerings The Non-Formal Skills Development Sub-Activity will expand access to non-formal education and training activities to the poor, women, at-risk youth, and others who are unlikely or unable to attend the extended programs of the middle technical schools, whether because of family responsibilities or because of inadequate educational foundation Training will foster networking and cooperation with area businesses, through internships, on-the-job training, and mentoring Where feasible, this training will be linked with activities in the twenty (20) middle technical schools related to the Formal Technical Education Sub-Activity

The Non-Formal Skills Development Sub-Activity will fund non-formal training activities throughout the Northern Zone The *Instituto Salvadoreño de Formación Profesional* will manage the Non-Formal Skills Development Sub-Activity through contracts with competitively selected service providers including private firms, NGOs, and other organizations qualified to deliver training services Training programs and courses will be determined based on diagnostics and work plans developed in connection with the Technical Assistance Sub-Activity Programs will focus on short-term, pre-employment training and market-based skills training, and other course modules that enable participants to obtain skills needed to improve their access to formal sector employment opportunities and/or contribute to the more efficient operation of new and existing micro, small and medium businesses It is expected that approximately 13,000 at-risk youth, women and other disadvantaged Northern Zone residents will benefit from this skills development assistance

(b) ***Project Activity: Community Development (the "Community Development Activity")***

The Community Development Activity aims to dramatically increase access of the Northern Zone's poor to basic public services and infrastructure It is comprised of three sub-activities water and sanitation infrastructure, rural electrification, and community infrastructure

For this Project Activity, the Government will ensure that appropriate environmental permits are obtained and requirements are met and that any involuntary resettlement issues are addressed according to the Environmental Guidelines and in compliance with the laws of El Salvador This will include the implementation of environmental and social mitigation measures as identified in environmental assessments, or as otherwise may be appropriate, to include compensation for physical and economic displacement of individuals, residences and businesses affected by such rehabilitation and construction, consistent with the World Bank's Operational Policy on Involuntary Resettlement (OP 4 12) Feasibility design and environmental assessment of Project Activities will be consistent with the outcomes of the SEA MCC Funding will support training in environmental management

(i) **Project Sub-Activity: Water Supply and Sanitation Infrastructure (the "*Water and Sanitation Sub-Activity*")**

MCC Funding will enhance access to water systems for approximately 90,000 and to improved sanitation services for approximately 50 000 of the poorest inhabitants in the Northern Zone These services, which constitute basic human needs essential to supporting human and economic development, will result in significant benefits in terms of reduced incidence of disease caused by the currently sub-standard levels of water and sanitation service in the region Beyond reduced mortality and morbidity, specific benefits include reduced expenditures on health care, increased attendance at school and work, and reduced time and cost spent seeking or purchasing water The Water and Sanitation Sub-Activity will be undertaken using a community-based approach that integrates infrastructure improvements with local capacity building to sustain the operation and maintenance of systems constructed, and that provides important community health education

Specifically, MCC Funding will support the following

(1) Feasibility studies, project designs, and environmental assessments for water supply and sanitation infrastructure, to include well drilling and pump tests, hydrogeological studies, water quality tests, appropriate watershed management plans, and site-specific EIAs, EMPs, and RAPs, as needed,

(2) Construction of potable water systems meeting World Health Organization standards, or other standards acceptable to MCC and sanitation systems (e g , household latrines) in approximately twenty-five (25) municipalities of the Northern Zone,

(3) Technical assistance for community capacity building, to ensure system maintenance and sustainability (e g , creation and training of local water management boards), and

(4) Community education related to appropriate health and sanitation practices

A transparent and participatory project selection process will be used to prioritize execution of the water and sanitation projects to be supported with MCC Funding from among the more than 20 municipalities already identified by the Social Fund for Local Development ("***FISDL***") Final project selection criteria, to be approved by MCC, will include (i) financial and economic viability, (ii) technical viability, (iii) environmental and social viability, and (iv) municipal and community demand and contribution to project development Municipalities must contribute at least 10 percent of project cost and beneficiary communities must contribute at least an additional 10 percent of project cost, in cash and/or in-kind These criteria will be explicitly defined and published during final project design, prior to implementation

The Water and Sanitation Sub-Activity's development process is expected to include

- A promotion phase during which selection criteria will be developed, working relationships with municipalities will be established and specific needs will be further detailed, and the terms of municipality cost-share cash contribution and community cost share (cash and or in-kind) will be defined

- A feasibility phase, during which feasibility studies and environmental analyses will be performed in packages with technical support from FISDL

- An execution phase, involving the development of design and bid packages by consultants, the execution of infrastructure and training components based on design and specifications, and the formation and training of any local health, environmental, and water boards

- A post-construction sustainability or monitoring period including legalization of water boards, further training and technical assistance for water boards and municipalities in system operation and maintenance ("***O&M***"), administration and financial management, transfer of the responsibility for the water systems to local water boards (where applicable), and water quality monitoring by the Government

(ii) **Project Sub-Activity: Rural Electrification (the "*Rural Electrification Sub-Activity*")**

The Rural Electrification Sub-Activity will extend electricity to at least 97 percent of the estimated 47,000 households in the Northern Zone that currently are not connected to local power distribution networks Service will be provided to these households through, as appropriate for the household, investments in the extension of distribution networks, in individual household connections to the network, and in the supply of off-grid solar photovoltaic systems MCC Funding will cover up to 85 percent of the projected investment in the electrification efforts, with contributions from the Government and the executing entities comprising the balance of at least 15 percent Access to electricity will result in immediate and significant financial savings to the beneficiaries, and is expected to increase household productivity significantly

Specifically, MCC Funding will support the following

(1) Feasibility, design, and environmental assessment to include site-specific EIAs, EMPs, and RAPs, as needed, for new distribution lines,

(2) Construction of approximately 1,500 km of new distribution lines and the corresponding connection of approximately 21,000 households to the expanded network,

(3) Connection of approximately 25,000 households to existing networks via the construction of necessary low voltage extensions,

(4) Investment in upgrading distribution networks as necessary to support the anticipated additional load on the system,

(5) Installation of approximately 950 solar power systems and provision of technical assistance for the creation of community associations for the management of solar power system operations and maintenance, and

(6) Contracting of a financial advisor by and at the expense of FOMILENIO to advise FOMILENIO on financial aspects and implications of the procurement process associated with the Rural Electrification Sub-Activity, as needed

FOMILENIO must ensure that the Rural Electrification Sub-Activity is executed in a manner acceptable to MCC with the goals of minimizing capital subsidies while maximizing the number of beneficiaries, the quality of electric service provided, and the long-term sustainability of the implemented projects FOMILENIO also must ensure that assets, obligations, and rights generated and or conferred as a result of MCC Funding are handled in a manner acceptable to MCC, further details of which shall be defined in an Implementing Entity Agreement approved by MCC

FOMILENIO and the respective Implementing Entity will ensure that open and transparent bidding or auction mechanisms are used in the process of selecting parties to execute the design and implementation of rural electrification works The financial advisor to be hired by FOMILENIO pursuant to clause (6) above will provide FOMILENIO and the Implementing Entity with independent third party advice aimed at optimizing tenders, auctions, or procurements to minimize the cost of proposed projects while ensuring successful implementation This financial analyst will be engaged prior to finalization of procurement/auction plans and during the execution of procurements/auctions, including direct participation in associated negotiations This financial advisor will report directly to FOMILENIO's assigned key personnel, to ensure required levels of the advisor's independence and additional confidence in the integrity of associated transactions

(iii) **Project Sub-Activity: Community Infrastructure (the "*Community Infrastructure Sub-Activity*")**

A significant barrier to increased growth in the Northern Zone is that communities lack adequate connectivity to access markets, employment, and health care or education facilities This lack of local infrastructure therefore hinders local economic growth and human development The Community Infrastructure Sub-Activity will improve the connection among isolated communities and villages in the Northern Zone while ensuring sustainable management of natural resources

Specifically, MCC Funding will support the following

(1) Feasibility, design, and environmental assessment to include site-specific EIAs, EMPs, and RAPs as needed, of community infrastructure development,

(2) Rehabilitation and construction of community infrastructure such as small roads and drainage works, retaining walls, pedestrian crossings and small bridges, and

(3) Technical assistance to communities and municipalities on infrastructure O&M

A transparent and participatory project selection process will be used to prioritize community infrastructure projects to be supported with MCC Funding from among the 170 or more candidate projects identified by FISDL in more than twenty (20) of the Northern Zone's poorest municipalities Final project selection criteria, to be approved by MCC, will include (i) financial and economic viability, (ii) technical viability, (iii) environmental and social viability and (iv) municipal and community demand and contribution to project development The candidate projects/communities will be eligible and encouraged to apply for funding, through their municipalities With regard to municipal and community demand and contribution to project development, a municipal contribution of at least 10 percent of project cost will be

required as a cash set-aside for infrastructure O&M, along with a matching contribution from beneficiary communities of at least an additional 10 percent, in cash and/or in-kind

The Community Infrastructure Sub-Activity will employ a community-based approach that integrates infrastructure improvements with local capacity building to sustain the operation and maintenance of community infrastructure developed Projects will be packaged by location and or type and contracted based on FISDL-approved design specifications, as appropriate The infrastructure developed will become community assets, to be maintained by the municipalities

3. Beneficiaries.

The Formal Technical Education Sub-Activity is expected to provide training to over10,000 participants, and to 5,000 teachers Priority groups will include the poor, women, youth at risk of migration or gang participation, unemployed persons (irrespective of age) and secondary school age youth The Formal Technical Education Sub-Activity will equip these beneficiaries with skills to obtain work or generate more personal and family income, notably for girls and women

The flexible and short-term training provided under the Non-Formal Skills Development Sub-Activity is expected to benefit approximately 13,000 persons Such training will be industry or job-specific, and is intended to expand participants' employment opportunities and to improve participant's earning potential More and better trained employees will provide the private and public sector with more productive workers, meet specific technology needs that are critical for economic advancement, and offer critical skills training to non-traditional, at-risk youth and adults

The Community Development Activity is intended to transform economic conditions for currently poor households in the Northern Zone The investments in the provision of basic services and community infrastructure will create more economic opportunities and raise productivity, while lowering the costs of water, sanitation, electricity, transportation, and other important services essential for improving the well-being of currently disadvantaged people Household incomes of the poor will rise due to improved economic opportunities, health and reduction in the number of lost working or school days The strategic infrastructure and basic services projects will contribute to increased productivity among the beneficiaries

The investments made under the Water and Sanitation Sub-Activity are expected to benefit 90,000 or more rural residents (18,000 households) in the Northern Zone Projects will be located in municipalities classified by poverty level and lack of coverage in water supply and sanitation

The Government estimates that over 47,000 rural households in the Northern Zone (roughly 25 percent of the population) lack electric service coverage and could receive service through the Rural Electrification Sub-Activity It is proposed that approximately 25,000 households will be connected to existing distribution networks, about 21,000 will be connected to new extended distribution networks (1,500 km of new lines), and roughly 950 households in isolated communities or located near protected areas that will receive solar power systems For the latter, community beneficiaries will be the association members or company owners The associations' functions will include the local collection and administration of funds dedicated to O&M activities, the training of users in the use and maintenance of the solar power systems, and the solicitation of technical support from the Government

The Community Infrastructure Sub-Activity will benefit over 130,000 residents (over 26,000 households) in over 20 municipalities in the Northern Zone The beneficiaries of this effort will include the poorest households, such as those composed of under represented groups

4. Donor Coordination; Role of Private Sector and Civil Society.

Activities supported under the Education Activity will interface with the principal strategies of the international donor community, and is in consonance with the national educational development plan, Plan 2021, that receives support from major donors Initial coordination meetings have been held with the World Bank, the Inter-American Development Bank ("***IADB***"), the European Union, the Japanese International Cooperation Agency and donor agencies within El Salvador's private sector Private sector organizations are already intensely involved in the delivery of human resources development in El Salvador The private business group FEPADE plays a major role in overseeing five vocational training facilities, and will be assigned a critical role in MCC funded operations

Several donors, including the German Development Bank, IADB, the European Union, and Luxemburg, support FISDL programs that invest in providing basic services (including water and sanitation) to communities throughout El Salvador FISDL's *Red Solidaria* is the largest program, targeting the 100 poorest municipalities of El Salvador Current plans across these programs include the investment of nearly US$ 30 million in the Northern Zone over the 2006 to 2011 period However, the Community Development Activity has targeted municipalities (among those deemed the poorest) where currently there are no plans for funding

The Community Infrastructure Sub-Activity will constitute an extension of *Red Solidaria* In extending the reach of *Red Solidaria* efforts rather than overlapping with them, MCC Funding will be dedicated to projects and communities (among the poorest) where there are not existing plans or dedicated funds from other donors

Japan and the European Union are the primary donors already active in rural electrification in El Salvador To ensure there is no overlap in funding with MCC, the Government, through MINEC, has indicated that US$ 6 6 millions from these two donors that had initially been planned for rural electrification programs in the Northern Zone will be redirected to municipalities outside the Northern Zone

Several national and international NGOs are active in water and sanitation in El Salvador, with experience in of the areas of project development, design, and implementation, these include CARE, Project Concern International and Plan International These organizations are eligible to submit proposals for and could potentially be selected to perform projects under the Water and Sanitation Sub-Activity

The World Bank is providing advisory and financial assistance to complete the SEA related to the Program the first of its kind led by MARN

5. U.S. Agency for International Development.

Education has long been a priority of USAID, however, USAID projects primarily are focused on primary education, while MCC Funding will target the secondary, adult and tertiary sectors The complementary work of MCC and USAID in support of education improvements in El

Salvador offers strong opportunities for collaboration, especially in the area of teacher training, institutional strengthening and learning materials development

From 1997 to 2005, USAID was active in funding water and sanitation programs in El Salvador, however current USAID activities do not focus specifically on water and sanitation The specific model presented for MCC Funding under this Project is very similar to that successfully previously implemented by USAID through FISDL and local contractors FOMILENIO will continue to dialogue with USAID to identify potential opportunities for coordination and adaptation of best-practices with respect to the Water and Sanitation Project

6. Sustainability.

All aspects of the Education and Training Activity are being designed to install permanent capacities in key Salvadoran ministries and institutions Investments in school strengthening and education infrastructure development will continue well after the Compact Term All interventions under the Education and Training Activity are envisioned to serve multiple purposes and to broaden access to skills training by more vulnerable and at-risk populations The MCC-supported program is expected to include strong private sector involvement, engender local and civil society ownership, and expand the range and quality of permanent instructional assets These elements will lead to more sustainable impact, permitting an ever-growing number of youth and adults in the Northern Zone to access diverse and quality training after the Compact Term

Sustainability of the systems installed under the Water and Sanitation Sub-Activity will be supported in part by the inclusion of municipal and community contributions (cash and in-kind) totaling at least 20 percent of project costs This requirement will help ensure that municipalities and communities have allocated resources for the maintenance of the infrastructure developed under the Community Development Activity, and that community demand is reflected in project selection In addition, system designs will be developed in a manner that meets community needs and that leads to a tariff (committed to by user contract) that reflects local willingness to pay Technical assistance will also be provided to communities in system use and management Finally, the project implementation plan includes a period of post-construction monitoring and ongoing capacity building, including the training of newly established water boards in system O&M, and administration and financial management

The sustainability of the Rural Electrification Sub-Activity is largely based on the fact that the distribution companies executing network investments will, in accordance with Salvadoran law, recuperate O&M costs through the electricity tariff customers pay This tariff, verified by the sector regulator, the *Superintendencia General de Electricidad y Telecomunicaciones* (**"*SIGET*"**), also includes a network charge that incorporates O&M costs Any and all capital investments funded by MCC will be excluded from the rate base used to calculate tariffs The sustainability of this Rural Electrification Sub-Activity is further enhanced by providing MCC Funding for service to be installed between the extended distribution network and households connecting to it This funding, covering part of the service extension costs (with the balance provided by the executing entities), will be available for the poorest households, ensuring their connection to the extended distribution network

In the case of the solar photovoltaic systems provided to isolated communities, sustainability is addressed by the feasibility study conducted before implementation and by the provision of

technical assistance to local community association or the company created to coordinate community participation and manage system operations Private entities will provide system installation, as well as technical assistance The community associations responsible for O&M will be legal entities registered with SIGET

The sustainability of projects executed under the Community Infrastructure Sub-Activity will be supported in part by the inclusion of municipal and community contributions (cash and in-kind) totaling at least 20 percent of project costs This requirement will also help ensure that municipalities and communities will allocate resources for the maintenance of the infrastructure developed under the Community Infrastructure Sub-Activity, and that community demand is reflected in project selection In addition, project design standards are to be developed in a manner that meets community needs and that leads to feasible O&M costs that reflect local willingness and contractual commitment to pay, thereby ensuring project sustainability

The environmental and social sustainability of the Human Development Project will be ensured through ongoing consultations with the public regarding the manner in which the Human Development Project is being implemented The SEA will include an assessment of the activities within the Human Development Project As necessary, environmental and social analyses (that also include an analysis of the gender impact) will be conducted, as part of the technical survey and design of Project Activities to evaluate the environmental and social impacts, cumulative impacts, and existence of economic and physical displacement, if any The Governmental shall ensure that any waste generated by the Human Development Project is disposed of in accordance with appropriate waste management plans that conform to the laws of El Salvador and the Environmental Guidelines

For the Water and Sanitation Sub-Activity, evaluation of hydrological resources will be performed in coordination with MARN to ensure sustainability of the investments Furthermore, the Government shall ensure, directly or through FOMILENIO (or other Permitted Designee), that environmental and social mitigation measures are developed and implemented for each Project Activity in accordance with the provisions of this Compact and any relevant Supplemental Agreements FOMILENIO shall ensure that environmental and social assessment responsibilities are included in the bidding documents for the design or supervisory firms, construction firms, independent technical auditing firms and any project management advisors, as needed In addition, any required EIAs, EMPs, and RAPs, in form and substance satisfactory to MCC, will be developed and implemented under the Project and monitored by FOMILENIO as necessary during implementation Project Activities, for which MCC disburses funds, should be consistent with the outcomes of the SEA acceptable to MCC, must have all required environmental permits, and must be in compliance with applicable law The Government shall fund any project-related environmental mitigation costs (including resettlement costs) that are not already covered by MCC Funding The sustainability of the Human Development Project will be enhanced by institutional capacity building and training on environmental management

7. Policy; Legal and Regulatory Reform; Government Actions.

The Parties have identified the following policy, legal and regulatory reforms and actions that the Government shall pursue in support, and to reach the full benefits, of the Human Development Project, the satisfactory implementation of which will be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement

(a) By the time specified in the Disbursement Agreement, the Government shall develop an appropriate watershed management plan(s) acceptable to MCC for the areas targeted by the Water and Sanitation Sub-Activity

(b) To the extent that MCC Funding is insufficient to meet the Outcome Indicator "Population with electricity in the Northern Zone" for the Rural Electrification Sub-Activity, the Government shall provide the necessary resources to meet such Outcome Indicator by the end of the Compact Term

(c) By the time specified in the Disbursement Agreement, the corresponding Implementing Entities shall present a staffing and equipment plan and implementation schedule, each acceptable to MCC, to manage the Community Development Activity The plan shall ensure sufficient personnel and organizational structures dedicated to environmental, social, and technical disciplines

(d) The Government shall ensure that the relevant Implementing Entities for the Community Development Activity update and implement throughout the Compact Term their environmental policies, to the satisfaction of MCC

(e) The Government shall ensure that property rights in the Northern Zone will be strengthened by the formal registration of land rights and the modernization of the property registry and cadastre in areas affected by the Human Development Project The Government shall ensure that land title issues are addressed to the satisfaction of MCC during the Compact Term

(f) The Government shall ensure that the MARN Program Requirements are satisfied as and when specified in Section 6 of Annex I to this Compact

(g) Currently, students without a primary school completion certificate are not permitted to apply for or enroll in middle technical schools in El Salvador The Government shall ensure that this requirement is modified to allow individuals with no primary school completion certificate to enroll in selected continuing education and selected professional certificate (non-degree granting) programs

8. Proposals.

Public solicitations for proposals are anticipated to procure goods, works and services, as appropriate, to implement all Project Activities under the Human Development Project FOMILENIO will develop subject to MCC approval a process for consideration of all such proposals Notwithstanding the foregoing, FOMILENIO may also consider, using a process developed subject to MCC approval any unsolicited proposals it might receive

SCHEDULE 2 to ANNEX I

PRODUCTIVE DEVELOPMENT PROJECT

This Schedule 2 generally describes and summarizes the key elements of the project that the Parties intend to implement in furtherance of the Productive Development Objective (the "***Productive Development Project***") Additional details regarding the implementation of the Productive Development Project will be included in the Implementation Documents and in the relevant Supplemental Agreements

1. Background.

Of the 850,000 residents of the Northern Zone (12 percent of the national population), approximately 263,000 are economically active Poverty is a common denominator among families in the region, where more than half of the households live in poverty and 50,000 households live in extreme poverty The per capita monthly income of Northern Zone residents is 60 percent of the national average The largely rural region is composed of 92 municipalities, most encompassing fewer than 2,000 households Unemployment is pervasive, affecting most age groups In particular, the difficulties posed by unemployment among young people are aggravated by the lack of education resources in the region With little hope for increased investment, productivity or employment in the Northern Zone, residents often see migration to the southern part of the country or to other countries as their best option to improve life for themselves and their families

Approximately 40 percent of the population of the Northern Zone is engaged in low-productivity activities, including the production of traditional crops (maize, beans, forage) Limited technical and business knowledge and limited access to financial resources have inhibited regional economic growth Only two percent of loans in El Salvador are extended to inhabitants of the Northern Zone, of which only four percent are extended to the agricultural sector

Studies of El Salvador have found that increased income of rural households is most often attributable to access to markets for higher value goods and services, access to infrastructure, and remittances The Productive Development Project seeks to increase the incomes of Northern Zone residents by providing technical assistance, training, and financial support to alleviate constraints to high quality production, increased productivity and access to investment capital The Productive Development Project is intended to help the region jump-start investment, particularly in activities that will benefit the poor and disadvantaged (with special focus on women and youth) Banking institutions in the Northern Zone also will be strengthened as a result of this Project

2. Summary of Productive Development Project and Related Project Activities.

The Productive Development Project will assist with the development of profitable and sustainable productive business ventures with a primary focus on assisting poor farmers shift to the cultivation of high-value crops forestry, and animal products Business development support for micro small and medium enterprises in other sectors, including tourism and artisanry will also be provided The Government, through *Banco Multisectorial de Inversiones* ("***BMI***"), will be responsible for the implementation of all the Project Activities of the Productive Development Project, consistent with the outcomes of the SEA The Government, through BMI, will prepare an operations manual (the "***PD Operations Manual***") with respect to the Productive

Development Project, which must be approved by MCC and FOMILENIO The PD Operations Manual shall include, among other things, the rules governing the delivery of subsidized in-kind (material inputs) and technical assistance and environmental and social gender guidelines

MCC Funding will support the following Project Activities

- *Production and Business Services* To provide technical assistance to poor farmers to shift to high-value agricultural production and forestry strategies and to provide pre-investment studies and technical assistance for the development and implementation of business plans for Project beneficiaries located in the Northern Zone or greatly benefiting the Northern Zone population,

- *Investment Support* To provide investment capital to competitively selected applicants for business activities located in and benefiting poor inhabitants of the Northern Zone, and

- *Financial Services* To provide financial enhancements to support increased lending activity by banks and non-bank financial institutions in the Northern Zone

FOMILENIO will ensure the establishment of an independent investment committee (the "***PD Investment Committee***") to oversee and guide activities within the Production and Business Services Activity and the Investment Support Activity and, to the extent specified in the PD Operations Manual, the Financial Services Activity The PD Investment Committee will be governed by and must adhere to the PD Operations Manual and will be composed of representatives agreed upon by MCC, FOMILENIO and BMI The PD Investment Committee will review and make recommendations to FOMILENIO regarding the allocation and use of resources for the Production and Business Services Activity and the Investment Support Activity at various stages of the implementation process

The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor the progress of the implementation of the Productive Development Project Performance against these benchmarks, as well as the overall impact of the Productive Development Project, will be assessed and reported at the intervals to be specified in the M&E Plan, or as otherwise agreed by the Parties, from time to time The Parties expect that additional indicators will be identified during implementation of the Productive Development Project The *expected results* from, and the *key benchmarks* to measure progress on, the Productive Development Project, as well as the Project Activities undertaken or funded thereunder, are set forth in Annex III

Estimated amounts of MCC Funding for each Project Activity for the Productive Development Project are identified in Annex II Conditions precedent to each Project Activity under the Productive Development Project, and the sequencing of such Project Activities, shall be set forth in the Disbursement Agreement, other Supplemental Agreements or the relevant Implementation Documents

The following summarizes each Project Activity under the Productive Development Project

(a) ***Project Activity: Production and Business Services (the "Production and Business Services Activity")***

The programs within the Production and Business Services Activity are intended to help poor farmers, organizations and micro-, small, and medium enterprises that benefit poor inhabitants of the Northern Zone successfully transition to higher-profit activities, generating new investment, expanding markets and sales, and creating new jobs in ways that stimulate sustainable economic growth and poverty reduction Through an international competitive process, FOMILENIO, with technical guidance from BMI, will contract with service providers (the "***PRONORTE Service Providers***") to carry out the Production and Business Services Activity

Specifically, MCC Funding will support the following activities for poor farmers, organizations and micro, small, and medium enterprises that benefit poor inhabitants of the Northern Zone

(i) Investment Planning The PRONORTE Service Provider will confirm assessments of high return investments, primarily in the agriculture sector Other sectors will be considered, including tourism and artisanry These assessments will be used to guide business plan development and technical assistance The investment planning will (a) ensure all investments meet economic viability benchmarks, (b) determine the technical feasibility of the proposed activities, (c) assess the environmental sensitivity and social impact, and (d) propose a detailed strategy for outreach to target male and female beneficiaries in the Northern Zone

(ii) Assistance to Small Farm Enterprises The primary focus of this activity is to transform on-farm productive practices of poor farmers by effecting a shift to high-value crops, forestry, and animal products This objective will be pursued through two related mechanisms the delivery of on-farm technical assistance by contracted extension services and the provision of material assistance The outreach plans must be approved by MCC and must incorporate gender analysis Technical assistance to farmers will likely include training in production management, application of best practices in agriculture (such as complying with sanitary and phytosanitary standards) and forestry (such as forest certification and reduced impact logging), post-harvest management, and market access information In-kind assistance will include the provision of new crop material and, possibly, livestock, with a significant cost-share by all participants One potential activity will be the development of forestry through investments in trees as on-farm productive assets for small and medium-sized farms This activity has additional benefits of soil conservation, strengthening natural resource management and providing potential opportunities for carbon credits As with other assistance to farmers this provision of in-kind assistance will be delivered with a significant cost-share by participants in the program All technical assistance will be in compliance with Salvadoran laws and regulations and the Environmental Guidelines and will encourage farm enterprises to employ environmentally sustainable practices and will disseminate environmental sustainability principles that include guidance on the proper selection, use, storage and disposal of pesticides The PRONORTE Service Provider will ensure proper practices to minimize and mitigate the potential negative impacts of any significant land conversion Any land acquisition and involuntary resettlement involved with this activity will be done in compliance with the World Bank's Operational Policy on Involuntary Resettlement (OP 4 12)

(iii) Business Development Services Based on PD Investment Committee guidance of focus areas, the PRONORTE Service Providers will undertake outreach and technical assistance and training to support the development of agribusiness and non-agricultural commercial activities, possibly including tourism and artisan products, as validated by the investment planning sub-activity The objective will be to support the development of efficient sustainable commercial activities that generate employment and raise rural incomes in the region Limited assistance may be provided to other enterprises to develop valuable market linkages and networks with target individuals and organizations The outreach plans must be approved by MCC and must incorporate gender analysis Technical assistance to new or expanded commercial activities likely will include market access information, business plan development and legal assistance with land title registration Technical assistance will encourage businesses to employ environmentally sustainable practices and will disseminate environmental sustainability principles Support to commercial establishments will be delivered, to the extent possible, through private service providers and will include a significant element of cost-sharing by participating entrepreneurs, both of which are critical elements of a strategy to develop a sustainable business development sector

(b) ***Project Activity: Investment Support (the "Investment Support Activity")***

To attract private investment in and various types of financing for high-value economic activities in the Northern Zone, the Investment Support Activity will utilize MCC Funding to support a demand-driven, competitive process to provide capital to critical investments required for successful operation of a business activity that is part of a value chain that will be located in and/or benefit poor inhabitants in the Northern Zone The goal of the Investment Support Activity is to make investment capital available to poor individuals, and organizations that benefit poor inhabitants of the Northern Zone, who, due to insufficient collateral and lack of liquid assets, are not able to finance their investments This investment support is intended to reduce poverty by enabling the creation of profitable and sustainable business activities that generate employment and significantly raise income

Specifically, MCC Funding will support the administration and funding of an investment support program providing investment capital for the development of competitively selected business proposals The Government, through BMI, will implement the investment support program through a suitable vehicle managed by BMI and funded with grants from FOMILENIO

The Investment Support Activity will require potential proponents to make proposals to compete for support based on transparent criteria, including, without limitation, a fully developed business plan and the provision of a significant contribution either of their own or of their business partners' resources These elements help ensure that resources are directed to the most promising business endeavors, encouraging alliances, joint ventures, and other forms of collaboration between more established enterprises and smaller disadvantaged organizations and individuals in the Northern Zone This also is expected to lead to faster start-up and increased chances of success and sustainability

Beneficiaries assisted in developing a business plan under the Production and Business Services Activity may submit those business plans for award consideration under the Investment Support Activity, however, investment support applications may also be submitted by candidates that have not received assistance under the Production and Business Services Activity or otherwise under the Productive Development Project

Proposals will be reviewed, ranked and recommended for approval by the PD Investment Committee Minimum eligibility (pass fail) criteria will be defined subject to MCC approval, including a minimum economic return threshold (returns must be higher than the rate defined in Annex III to this Compact), technical feasibility, and financial need Proposals will be evaluated according to specified criteria approved by MCC, including criteria with respect to the following (i) financial rate of return, (ii) economic rate of return, (iii) co-investment level, (iv) environmental and social considerations, (v) technical feasibility, and (vi) employment and other community impacts

The Investment Support Activity will be governed by and must adhere to rules and procedures documented in the PD Operations Manual The capital investments made must be designed to be liquidated, whether by repurchase by the recipient, fulfillment of a note or contract, purchase by third parties, or in another manner, on terms appropriate for a capital investment as regards the size of planned liquidation payments, and as early as reasonably possible consistent with estimated cash flows of the business activity in which the investment is made, all according to terms established at the time of the award and in adherence to the principles outlined in the PD Operations Manual At the conclusion of the second year of the Compact Term, an assessment will be made and appropriate changes enacted, if necessary, in the structure and funding of the Investment Support Activity

Prior to the end of the fourth year of the Compact Term, FOMILENIO and MCC must complete a plan for the disposition of financial assets generated by the Investment Support Activity This plan must entail either a liquidation of assets or a program to be managed by a fiduciary agent The selection of the liquidation agent or fiduciary agent must be completed no later than six months prior to the end of the Compact Term No financial asset created under the Investment Support Activity during the Compact Term can have an original maturity that is later than the date that is nine years from the date of Entry Into Force All financial assets must be liquidated or transferred (as per the aforementioned plan) prior to the date that is ten years after the date of Entry Into Force

(c) ***Project Activity: Financial Services (the "Financial Services Activity")***

Regulated financial institutions in El Salvador have substantial liquidity, yet only a very small percentage of this liquidity is directed towards activities in the Northern Zone The Financial Services Activity seeks to increase lending and access to credit and other financial services and to improve the risk profile of micro, small and medium producers and rural entrepreneurs in the Northern Zone

MCC Funding will support the following programs The specific terms and conditions of MCC-supported sub-activities under the Financial Services Activity will be set forth in term sheets and other documentation relating to implementation, to be agreed upon by FOMILENIO and MCC

(i) Guarantee Funds MCC Funding will support two guarantee programs, as follows

(1) FOMILENIO will establish a guarantee program, to be administered by the Government, through BMI, based upon the model of El Salvador's *Programa de Garantia Agropecuaria* ("***PROGARA***"), a governmental program managed by BMI which provides guarantees to farmers to facilitate access to credit and reduce credit risk for the participating financial institutions To encourage the participation of financial

intermediaries, MCC Funding will be used to pay commissions to financial intermediaries that guarantee loans incurred by producers in the vegetable, fruits and dairy sectors In addition, MCC Funding will be used to establish a reserve to cover potential defaults of up to 50 percent of loan amount of participating medium size farmers and up to 70 percent of loan amounts for micro and small farmers [1] These levels will be reevaluated and adjusted as appropriate after the second year of the program

(2) *Sociedad de Garantias Recíprocas* ("***SGR***") is a public-private entity providing bank or commercial loan guarantees for micro, small and medium scale enterprises, such as agroindustries, commercial entities, light manufacturing, tourism and other services which have been assessed and approved by SGR These guarantees enable enterprises to be eligible to receive loans from participating banks or commercial lenders MCC Funding will cover incremental SGR expenses associated with expanding the SGR guarantee program in the Northern Zone, as well as a reserve to increase SGR guarantee authority and cover potential defaults

With respect to the guarantee-related programs discussed in the preceding paragraphs (1) and (2), any amounts provided as a reserve will be transferred to and held in separate reserve accounts in accordance with a disbursement schedule and procedure agreed upon between FOMILENIO, MCC and the relevant Implementing Entity

Prior to the end of the fourth year of the Compact Term, FOMILENIO and MCC must complete a plan for the disposition of financial assets of these guarantee-related programs This plan must entail either a liquidation of assets or a program to be managed by a fiduciary agent The selection of the liquidation agent or fiduciary agent must be completed no later than six months prior to the end of the Compact Term No loan guaranteed by these guarantee-related programs can have an original maturity that is later than the date that is nine years from the date of Entry Into Force All financial assets must be liquidated or transferred (as per the aforementioned plan) prior to the date that is ten years after the date of Entry Into Force

(ii) Agricultural Insurance MCC Funding will support a crop insurance program for vegetable farmers based in the Northern Zone Term sheets will be developed by the Government, through, BMI with insurance companies interested in participating in this program MCC Funding will cover up to 50 percent of the insurance premiums for first-time small vegetable farmers who participate directly in the technical assistance program under the Production and Business Services Activity or who have received a certification of good growing practices from the PRONORTE Service Providers The payment will be phased out over time An additional insurance premium support mechanism for small farmers in other sectors may be implemented but will be subject to the outcome of pre-investment studies

(i) Financial Intermediary Technical Assistance MCC support will provide specialized, short-term technical assistance to bank, non-bank and non-governmental financial intermediaries in the Northern Zone that are working to expand rural finance and improve credit analysis, introduce new technologies into their service delivery, or develop specialized products (such as leasing, savings or specialized agricultural credit products) that increase beneficiary access to financial services Financial intermediaries desiring such assistance will apply on a competitive basis to the PRONORTE Service Providers The

[1] Micro small and medium farmers, as defined in official Government statistics

PRONORTE Service Providers may also offer short training workshops on a cost-share basis for financial intermediary staff in order to strengthen financial services delivery capacity in the Northern Zone

3. Beneficiaries.

The principal beneficiaries of the Productive Development Project are expected to be the 55,000 poor people employed in agriculture or non-farm activities including producers, and micro, small and medium companies Agribusinesses and other micro, small and medium enterprises also will benefit from new or expanded market opportunities created under the Productive Development Project Underrepresented groups such as small farmers, women and youth will receive preference in the assessment of potential beneficiaries of the Investment Support Activity

4. Donor Coordination; Role of Private Sector and Civil Society.

Loans and donations programmed by multilateral institutions in 2005 for El Salvador totaled $128 61 million Out of the planned and on-going donor assistance to El Salvador, the amount targeted for the Northern Zone amounts to $43 5 million from multilateral donors (a) World Bank - $20 1 million for Land Regularization Program, (b) International Fund for Agricultural Development - $10 8 million for agricultural development, (c) the Central American Bank for Economic Integration - $3 3 million for agricultural development, and (d) IADB - $3 1 million for Environmental Management of the Lempa River Valley

MCC has consulted IADB on two projects with relevance to the Financial Services Activity First, the IADB is expecting to approve a micro-finance project of $1 5 million This IADB project will increase the resources available for on-lending from qualified intermediaries to micro and small enterprises These intermediaries in turn will be eligible for participating in the PROGARA guarantee program, and therefore will have a ready source of funds available for lending to potential guarantees beneficiaries of the Financial Services Activity

Second, IADB has approved a regional technical assistance program for improving agricultural insurance programs in Central America The program seeks to strengthen the regulatory and legal framework for agricultural insurance in the region, develop a platform to systematize climatologic information for risk analysis, and design innovative insurance products for agriculture Although the Financial Services Activity will not be directly affected by this IADB project, the development of better risk analysis tools will be a positive factor for the growth of the agricultural insurance market in El Salvador

The World Bank is providing advisory and financial assistance to complete the SEA related to the Program, the first of its kind led by MARN

Bilateral assistance in the Northern Zone amounts to $30 million, comprised of assistance from the European Union ($24 7 million to support a bi-national program), GTZ ($800,000 for environmental management), and China, Japan and USAID ($3 5 million for agricultural development)

Japan s recent four-year $90 million loan activity for the Port of Cutuco is directly relevant to the Productive Development Project, as this investment will enhance the importance of the Northern Zone as a logistical corridor and source for labor and agricultural commodities

The Productive Development Project will complement ongoing donor activities by significantly increasing the amount of donor assistance dedicated to economic growth activities in the Northern Zone Project implementers will participate in donor coordination through the existing mechanism and seek to work closely with all donor entities implementing activities in the Northern Zone

5. U.S. Agency for International Development.

USAID is presently the largest bilateral donor to El Salvador ($34 23 million) MCC coordinated closely with USAID staff in determining the feasibility of the Productive Development Project and will continue such collaboration during Compact implementation, particularly in connection with USAID's work in the following four strategic areas

(a) Export Promotion USAID's ExPro project trains micro, small and medium enterprises, mostly outside of the Northern Zone, in business and export management Collaboration related to certain components of the Productive Development Project and the ExPro project are likely, particularly with respect to training efforts, strategic planning, business venture brokering, and participation in international trade fairs

(b) Artisan Development This USAID program assists artisans, a significant number of which reside in the Northern Zone, with improved design techniques, business management training, increased sales opportunities through international buyer missions and regional sales promotion events

(c) Agriculture Diversification This USAID project encourages diversification of coffee production to the production of specialty coffees and horticultural products through technical assistance

(d) Financial Services The Financial Services Activity will benefit from two phases of a USAID project that strengthened micro-finance institutions in the poorest areas of El Salvador (i) FOMIR, a project considered highly successful, contributed to the improvement of the quality, availability and variety of micro-finance products offered throughout the country, many of these micro-finance institutions will be eligible for using the guarantee mechanisms in the MCC-funded agricultural guarantee program available under the Financial Services Activity, thereby expanding the reach of the FOMIR program into the rural areas, and (ii) a recently initiated USAID program to assist regulated banks in offering better service and products to small and medium enterprises, this USAID program will improve services provided by banks to small and medium enterprises, the Financial Services Activity will benefit from this new interest in small and medium enterprises, especially in the SGR guarantee program, which utilizes the regulated banking sector as intermediaries for its guarantees

In addition, USAID has a newly established, active Development Credit Authority ("***DCA***") guarantee program in El Salvador The program will be working with two banks, ProCredit and Banco Salvadoreño The DCA program is not limited in terms of geography so it is expected that most of the guarantees will be concentrated in the major metropolitan areas of the country For that reason, and because of the limited number of banks participating in the DCA program, it is not expected that the MCC guarantee programs and the USAID guarantee program of the Financial Services Activity will have much overlap during project execution

6. Sustainability.

The environmental and social sustainability of the Productive Development Project will be assured through ongoing consultations with the public regarding the manner in which the Productive Development Project is being implemented The activities funded under the Productive Development Project will be consistent with the outcomes of the SEA Any land acquisition and involuntary resettlement required for the Productive Development Project will be consistent with the World Bank's Operational Policy on Involuntary Resettlement (OP 4 12) Throughout the Compact Term, the Government shall ensure, directly or through FOMILENIO (or other Permitted Designee), that requisite environmental, social, and gender analyses are conducted, as needed, as part of the technical survey and design of the Project Activities and that environmental and social mitigation measures are developed and implemented in accordance with the provisions of this Compact and related Supplemental Agreements In connection with Productive Development Project procurements, FOMILENIO will ensure that environmental and social assessment responsibilities are included in the bidding documents for the design or supervisory firms, the construction firms, the independent technical auditing firms and any project management advisors In addition, any required EIAs, EMPs, and RAPs, in form and substance satisfactory to MCC, will be developed and implemented under the Project FOMILENIO will require environmental monitoring of the subprojects and submittal to MCC of periodic reports on the implementation of the environmental procedures and environmental performance Subprojects for which MCC disburses funds, must have all environmental permits required by Salvadoran law The sustainability of the Productive Development Project will be enhanced by institutional capacity building and training on environmental management

The competitive selection process of Investment Support Activity incorporates the MCC goal of sustainability Evaluations based on business plan feasibility will increase the likelihood of financial sustainability beyond the Compact Term and will support motivated entrepreneurs and promising business endeavors Such evaluations also will take into consideration (a) competitive co-investment in order to leverage private investment and ensure commitment on behalf of beneficiaries, and (b) the environmental and social safeguards to ensure sustainable use of the natural resource base and consideration of social dynamics

Additionally, the recipients under the Investment Support Activity will receive customized technical assistance to encourage (a) the adoption of sound technical and business management practices for the development and operation of the investment, and (b) the establishment of legal entities and financial mechanisms necessary to provide maintenance, replacement and improvement of investments over time Technical training of producers and technical experts also will improve the human resource base, thereby improving the quality of local services provided along targeted value chains

The Financial Services Activity has been designed to be financially sustainable at the end of the Compact Term In the two guarantee programs, MCC Funding will be used principally to increase the guarantee authority by creating a reserve that would earn income until the funds are needed for losses under the program As long as the losses are contained at a manageable level, these MCC resources will remain when the Compact expires, and could be used to capitalize the guarantee funds permanently or for some other use The relatively small amount of MCC Funding that could be considered expenses are the financial incentives for the intermediaries in the case of the MCC-funded agricultural guarantee program, and the incremental expenses for starting up and promoting the guarantee program in the northern region, in the case of SGR In

both of these cases, the payments may be discontinued after three years, when it is expected that the critical mass will be reached to permit reaching operational break-even for the guarantee programs From that point, the normal charges for commissions and fees would be sufficient to cover the expenses of the guarantee programs

The agricultural insurance program will pay up to 50 percent of the premiums for insuring selected vegetable crops This program will test the ability of the producers and insurance companies to reach appropriate and affordable levels of premiums according to the losses incurred over a reasonable period of time This ability will be assisted by the aforementioned IADB project, which is intended to strengthen all aspects of the agricultural insurance industry

7. Policy; Legal and Regulatory Reform; Government Actions.

The Parties have identified the following policy, legal and regulatory reforms and actions that the Government shall pursue in support, and to reach the full benefits, of the Productive Development Project, the satisfactory implementation of which will be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement

(a) The Government shall ensure that property rights in the Northern Zone will be strengthened by the formal registration of land rights and the modernization of the property registry and cadastre in municipalities and/or departments benefiting directly from the Productive Development Project The Government shall ensure, and MCC will monitor, that land title issues are addressed to the satisfaction of MCC during the Compact Term

(b) The Government shall ensure that the MARN Program Requirements are satisfied as and when specified in Section 6 of Annex I to this Compact

(c) The Government shall ensure that BMI creates the proper financial instruments and mechanisms to implement the Investment Support Activity

8. Proposals.

Public solicitations for proposals are anticipated to procure goods, works and services, as appropriate, to implement all Project Activities under the Productive Development Project FOMILENIO will develop, subject to MCC approval, a process for consideration of all such proposals Notwithstanding the foregoing, FOMILENIO may also consider, using a process developed subject to MCC approval, any unsolicited proposals it might receive

SCHEDULE 3 to ANNEX I
CONNECTIVITY PROJECT

This Schedule 3 generally describes and summarizes the key elements of the project that the Parties intend to implement in furtherance of the Connectivity Objective (the "***Connectivity Project***") Additional details regarding the implementation of the Connectivity Project will be included in the Implementation Documents and in relevant Supplemental Agreements

1. Background.

The Connectivity Project addresses the issue of the Northern Zone's physical isolation in an attempt to fully integrate this region into the development plans of El Salvador The isolation of the Northern Zone is an impediment to its development and a contributor to the widespread poverty that affects more than half of households in the Northern Zone Improving transportation connectivity in the Northern Zone will stimulate human and productive development by reducing the time and cost of travel, facilitating access to markets, encouraging regional development and productive land use, attracting investment, and improving access to health and education services

Current road conditions and, in some places, the lack of roads have contributed to the isolation of the Northern Zone With the Connectivity Project, 57 municipal capitals within El Salvador will be linked by a reliable, paved road Currently, 23 of the 57 municipalities have only unpaved dirt roads During periods of heavy rain, the current roads - especially unpaved roads - can become impassable In the Northern Zone, many neighboring communities do not have direct, reliable transport routes connecting them, so community members must travel great distances, or over difficult conditions, to access services or markets in neighboring communities The Connectivity Project will provide significantly greater access that will alleviate these difficulties as well as decrease travel time and vehicle operation and maintenance costs

2. Summary of Connectivity Project and Related Project Activities.

The Connectivity Project will apply MCC Funding to the completion of a two-lane transnational highway across the Northern Zone (the "***Northern Transnational Highway***" or "***NTH***"), which will serve as a transport artery within the Northern Zone and will augment international connectivity through two new border crossings, one with Honduras in the east and one with Guatemala in the west In addition, the Connectivity Project will fund improvements to a strategic network of connecting roads (the "***Network of Connecting Roads***" or "***NCR***") The Network of Connecting Roads will provide reliable paved roads to foster the connection of remote municipalities and rural villages of the Northern Zone with the NTH and other regional and national traffic routes

MCC Funding will support the following Project Activities

- *Northern Transnational Highway* To design and construct openings of approximately 50 km of secondary[1] roads, to improve approximately 160 km to secondary road standards and to rehabilitate approximately 80 km to secondary road standards,[2] and

[1] Secondary roads are composed of a paved traveled way of two 3 25 m wide lanes (6 50 m traveled way) and 1 5 m wide shoulders and include surface drainage

- *Network of Connecting Roads* To improve approximately 240 km to modified tertiary road[3] standards

The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor the progress of the implementation of the Connectivity Project Performance against these benchmarks, as well as the overall impact of the Connectivity Project, will be assessed and reported at the intervals to be specified in the M&E Plan, or as otherwise agreed by the Parties, from time to time The Parties expect that additional indicators will be identified during implementation of the Connectivity Project The *expected results* from, and the *key benchmarks* to measure progress on, the Connectivity Project, as well as the Project Activities undertaken or funded thereunder, are set forth in Annex III

Estimated amounts of MCC Funding for each Project Activity for the Connectivity Project are identified in Annex II Conditions precedent to each Project Activity under the Connectivity Project, and the sequencing of such Project Activities, shall be set forth in the Disbursement Agreement, other Supplemental Agreements or the relevant Implementation Documents

The following summarizes each Project Activity under the Connectivity Project

(a) ***Project Activity: Northern Transnational Highway (the "Northern Transnational Highway Activity")***

The Northern Transnational Highway will provide contiguous and reliable access to communities in the Northern Zone, as well as to main transport corridors, thereby enabling the Northern Zone to participate more fully in the national and regional economy When completed, the NTH will extend across El Salvador from Guatemala in the west to Honduras in the east, and will connect with roads to southern El Salvador, to the new Pacific Ocean port at La Union in eastern El Salvador and to the Caribbean ports in Guatemala (Puerto Barrios) and Honduras (Puerto Cortez) Primarily, the NTH will follow a course of existing roads, with only 50 km of new roads needed to connect the different sections of road to form a continuous transnational paved surface

As El Salvador increases its participation in international and regional markets through the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR) and Plan Puebla-Panama activities, the NTH will provide valuable access to a wider range of opportunities for the communities of the Northern Zone Reliable and efficient transportation schemes are essential to El Salvador's participation in international and regional markets, and especially essential to small, local producers and suppliers Currently, the Northern Zone has

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[2] The work to be performed on the NTH and the NCR can be classified by the following standard descriptions (i) 'improvement" means that the geometric characteristics of an existing road are changed to raise the standards of the road, this type of work implies widening of lanes, adding or widening shoulders, increasing the minimum radius of curvature decreasing maximum slopes and paving unpaved roads (ii) 'rehabilitation' means that the general geometric characteristics, except width of an existing paved road are maintained this work requires improving pavement surface or pavement structure or drainage and (iii) 'opening" a new road means that no road exists in connection with such work cuts often occur on the slopes in mountainous zones and significant modification of the topography often occurs at least within the area of influence of the road

[3] 'Modified tertiary roads' are roads that have a paved traveled way of 6 0 m and 1 0 m shoulders and include drainage structures These modified tertiary roads will contribute greatly to improving mobility in the Northern Zone and to the success of the Human Development Project and Productive Development Project

neither a reliable nor an efficient transport route for the goods and services of the communities in the Northern Zone The Northern Transnational Highway Activity will provide wide-ranging benefits, including helping produce to arrive at markets undamaged and in a timely manner, allowing efficient access of public services such as ambulances and public transportation and reducing vehicle operation and maintenance costs

Subject to modifications based on findings of the feasibility study, the NTH can be described by road segments, as follows

Segments of NTH	**Length (km)**
La Virgen (El Salvador - Guatemala border) - Nueva Concepcion	56 3
Chalatenango - Nuevo Eden de San Juan	99 3
Nuevo Eden de San Juan - Oscicala	62 9
Oscicala - Concepcion de Oriente (El Salvador - Honduras border)	72 4
TOTAL	**290 8**

Specifically, MCC Funding will support the following

(i) Design, environmental assessment, as needed (to include, if necessary, supplemental EIAs, EMPs, and RAPs) and construction activities for the opening, improvement, or rehabilitation of approximately 290 km of the NTH,

(ii) Implementation of environmental and social mitigation measures as identified in the EIA, or as otherwise may be appropriate to include compensation for physical and economic displacement of individuals, residences and businesses affected by such rehabilitation and construction, consistent with the World Bank's Operational Policy on Involuntary Resettlement (OP 4 12), and implementation of HIV/AIDS awareness plans satisfactory to MCC,

(iii) Design and construction of drainage structures, as may be required,

(iv) Design and construction of all necessary new bridges and rehabilitation of existing bridge structures, as may be required,

(v) Posting of signage and incorporating other safety improvements

(vi) Project management, supervision and auditing of such improvements and upgrades, and

(vii) Training in environmental management

(b) ***Project Activity: Strategic Network of Connecting Roads (the "Connecting Roads Activity")***

Under current conditions, many rural roads in the Northern Zone are virtually impassable without a four-wheel drive vehicle In addition, considering the high rainfall and flooding levels common in the region, these roads are not only inefficient but also dangerous

By improving approximately 240 km of primarily dirt roads to modified tertiary road status, the Connecting Roads Activity will connect vast rural areas of the Northern Zone with the NTH and with the existing paved road network The improvement of connecting roads will improve transportation linkage and reduce transportation costs and time Northern Zone residents will have mobility within their hometowns and will have access to territories beyond their usual boundaries

Subject to modifications based on findings of the feasibility study, NCR can be described by road segments, as follows

Road Segments		**Length (km)**
VT1	San Jose Cancasque - Potonico - Cerron Grande - Jutiapa - Tejutepeque y Ramal	23 04
VT4	Ilobasco - Presa 5 de Noviembre	32 4
VT8	S Miguel de Mercedes - S Antonio Los Ranchos - Potonico	14 93
VT16	Nombre de Jesus - Arcatao	16 87
VT5	Masahuat - Santa Rosa Guachipilin	12 25
VT6	Nueva Concepcion - Texistepeque	27 29
VT7	San Fernando - Dulce Nombre de Maria	31
VT11	San Francisco Morazan - Tejutla - El Paraiso	15 03
VT2	Sesori - Et SAM31E (Nuevo Eden de San Juan)	15 3
VT3	Anamoros - Lislique	8 5
VT13	Perquin - Paso del Mono	13 17
VT15	CA 7 - Arambala - Joateca	17 8
VT17	SAM33, Canton El Carrizal - San Antonio	7 15
VT18	MOR13W, San Simon - San Isidro	3 65
TOTAL		**238 38**

Specifically, MCC Funding will support the following

(i) Design, environmental assessment, as needed (to include, if necessary, supplemental EIAs, EMPs, and RAPs), and construction activities for the improvement of approximately 240 km of the NCR

(ii) Implementation of environmental and social mitigation measures as identified in the EIA, or as otherwise may be appropriate, to include compensation for physical and economic displacement of individuals, residences and businesses affected by such rehabilitation and construction consistent with the World Bank's Operational Policy on Involuntary Resettlement (OP 4 12) and implementation of HIV AIDS awareness plans satisfactory to MCC,

(iii) Design and construction of drainage structures, as may be required,

(iv) Design and construction of all necessary new bridges and rehabilitation of existing bridge structures, as may be required.

(v) Posting of signage and incorporating other safety improvements,

(vi) Project management, supervision and auditing of such improvements and upgrades, and

(vii) Training in environmental management

3. Beneficiaries.

The direct and immediate beneficiaries of the Connectivity Project will be the inhabitants of the Northern Zone, which covers an area of 7,500 square kilometers, over one-third of the national territory Approximately 600,000 inhabitants of the Northern Zone are estimated to benefit, 52 percent of which are women In addition, Salvadorans beyond the Northern Zone's boundaries will benefit from the integration of the Northern Zone and its people into a sustainable development process for El Salvador and the Central American region The improvements to the road network in the Northern Zone will contribute to improving life in six departments of the country

4. Donor Coordination; Role of Civil Society.

The Connectivity Project forms an integral part of an international effort to improve the road network of El Salvador The total estimated cost of planned improvements to the network is approximately $331 million The Government has petitioned the multilateral development banks and bilateral donor community for cooperation in this effort IADB and the European Union are expected to provide substantial assistance to complement the activities of the Government and the activities funded by MCC The World Bank is providing advisory and financial assistance to complete the SEA related to the Program, the first of its kind led by MARN

In developing the Connectivity Project, MCC held coordination meetings with many in the donor community MCC provided information on the proposed projects and gathered important information regarding the relationship between the Government and the donor organizations, as well as the planned donor activity The interventions financed by other entities do not conflict with the Connectivity Project Rather, they contribute to create a more comprehensive road network, by incorporating roads that connect to the NTH or roads of the NCR to smaller towns

The consultations conducted by CND revealed broad interest in addressing the Northern Zone's isolation and limited connectivity Diverse segments of Salvadoran population and institutions agree on the importance of the Connectivity Project in integrating the Northern Zone and fostering regional and national development

Civil society will play a vital role in the overall success and sustainability of the Connectivity Project Primarily as independent agents, NGOs, community organizations, and local environmental units are expected to aid in the informal monitoring of construction activities and post-construction activity along the NTH and the NCR Ongoing public consultation by the Ministry of Public Works ("***MOP***") and MARN will provide the avenue for public discourse and consultation regarding the design, environmental assessment, and implementation of Project Activities throughout the Compact Term

5. U.S. Agency for International Development.

USAID currently does not focus specifically on road network interventions in El Salvador However, FOMILENIO will continue to dialogue with USAID to identify potential opportunities for coordination with respect to the Connectivity Project MCC has consulted with USAID throughout the due diligence process on HIV/AIDS-related concerns USAID does fund several regional HIV/AIDS prevention initiatives that have offices and activities in El Salvador These include *Proyecto AccionSIDA de Centroamerica* and the Pan American Social Marketing Organization With increased access in the Northern Zone due to these Project Activities and the inevitable influx of construction workers to the Northern Zone, these programs may provide essential services to the communities of the Northern Zone in conjunction with the activities of the Connectivity Project

6. Sustainability.

MOP is the principal institution responsible for the effective and sustainable management of the road network in El Salvador As such, MOP plays a central role in coordinating and regulating the activities of *Fondo de Conservación Vial* ("***FOVIAL***"), an autonomous entity established in 2000 by the Government FOVIAL will conduct periodic and routine maintenance on the roads constructed under the Connectivity Project

FOVIAL is funded by a mandated surcharge of 20 cents per gallon of fuel sold An extensive campaign, which includes distribution of brochures, newspapers inserts, television and radio announcements, is continuously conducted to explain to Salvadorans the use and benefits of this fuel surcharge

The environmental and social sustainability of the Connectivity Project will be assured through ongoing consultations with the public regarding the manner in which the Connectivity Project is being implemented In addition, the SEA conducted for the Northern Zone will include an assessment of the Project Activities within the Connectivity Project Throughout the Compact Term, the Government will ensure, directly or through FOMILENIO (or other Permitted Designee), that environmental and social mitigation measures are developed and implemented for the Project in accordance with the provisions of this Compact and any relevant Supplemental Agreements FOMILENIO will monitor the implementation of the mitigation measures, as necessary, during implementation In connection with Connectivity Project procurements, FOMILENIO will ensure that environmental and social assessment responsibilities are included in the bidding documents for the design or supervisory firms, the construction firms, the independent technical auditing firms and any project management advisors Any MCC Disbursements for construction related to the Connectivity Project will be contingent upon completion of the EIA, EMPs any required RAPs and HIV/AIDS awareness plans and issuance of environmental permits, as needed, or any Government statutory requirements, satisfactory to MCC The sustainability of the Connectivity Project will be enhanced by institutional capacity building and training on environmental management

7. Policy; Legal and Regulatory Reform; Government Actions.

The Parties have identified the following policy legal and regulatory reforms and actions that the Government shall pursue in support and to reach the full benefits, of the Connectivity Project, the satisfactory implementation of which will be conditions precedent to certain MCC Disbursements as provided in the Disbursement Agreement

(a) The Government shall ensure that MOP prepares and implements a staffing and equipment plan, acceptable to MCC, to enhance MOP's capabilities for managing the Connectivity Project To the extent not covered by MCC Funding allocated for such purpose in the Financial Plan, the Government shall provide the resources necessary for MOP to implement the staffing and equipment plan as further specified in the Disbursement Agreement

(b) By the time specified in the Disbursement Agreement, the Government shall ensure that MOP creates and fills at least three additional permanent staff positions in MOP's environmental management sub-unit as described in the staffing plan described in paragraph (a) above The environmental management sub-unit shall serve as the MOP representative concerning environmental aspects of the Connectivity Project and other environmental management activities of MOP The Government shall provide appropriate resources to MOP for such permanent staff positions

(c) By the time specified in the Disbursement Agreement, the Government shall prepare, and shall submit to MCC, a detailed maintenance plan acceptable to MCC for all roads included in the Connectivity Project Such maintenance plan shall set forth, with respect to all roads included in the Connectivity Project, the schedule of and the budget requirements for both routine and periodic maintenance of all such roads during the Compact Term and thereafter for the life of such roads All such maintenance shall be undertaken as part of FOVIAL's general maintenance program for the national road network The Government shall provide adequate funding for all such maintenance of the roads included in the Connectivity Project during the Compact Term, thereafter, the Government expects to provide adequate funding for all such maintenance of the roads included in the Connectivity Project for the remaining life of such roads

(d) By the time specified in the Disbursement Agreement, the Government shall ensure that an implementation plan acceptable to MCC for sustainable border control measures at all new border crossings is prepared in coordination with the Bureau for International Narcotics and Law Enforcement Affairs, the Department of Homeland Security and the Drug Enforcement Agency at the U S Embassy

(e) The Government shall ensure that MOP updates its bridge management system for the monitoring and maintenance tracking of all bridge structures included in the national road network By the time specified in the Disbursement Agreement, MOP shall provide a bridge replacement or rehabilitation plan acceptable to MCC for the existing bridges of the Northern Zone road network that are outside of the NTH and NCR and are identified as unsafe The Government shall provide adequate funding for completion of construction activities to replace or rehabilitate the unsafe bridges identified in such plan by the end of the fourth year of this Compact

(f) The Government shall conduct, at its own expense, an EIA, a feasibility study, and partial design activities, to include the development of EMPs, any required RAPs and HIV AIDS awareness plans to be implemented under the Connectivity Project each to the satisfaction of MCC The EIA, which is part of the feasibility and design study, will determine the environmental, social, and gender impacts, cumulative and induced impacts, and existence of economic and physical displacement, if any Further, to the extent possible, the EIA and design activities will be consistent with the outcomes of the SEA Any required RAPs will be

developed and implemented in compliance with the World Bank's Operational Policy on Involuntary Resettlement (OP 4 12)

(g) The Government shall provide assurance that all new bridge projects resulting from the feasibility study and final design of the NTH and the NCR will receive adequate funding for completion if the resulting costs exceed the total amount allocated in this Compact for the Connectivity Project

(h) The Government shall ensure that property rights in the Northern Zone will be strengthened by the formal registration of land rights and the modernization of the property registry and cadastre in areas adjacent to the corridor of the roads improved under the Connectivity Project The Government shall ensure that land title issues are addressed to the satisfaction of MCC during the Compact Term

(i) The Government shall ensure that the MARN Program Requirements are satisfied as and when specified in Section 6 of Annex I

ANNEX II

SUMMARY OF MULTI-YEAR FINANCIAL PLAN

This Annex II to the Compact (the "***Financial Plan Annex***") summarizes the Multi-Year Financial Plan for the Program. Each capitalized term in this Financial Plan Annex shall have the same meaning given such term elsewhere in this Compact. Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of this Compact.

1. General.

A multi-year financial plan summary ("***Multi-Year Financial Plan Summary***") is attached hereto as Exhibit A. By such time as specified in the Disbursement Agreement, FOMILENIO will adopt, subject to MCC approval, a Multi-Year Financial Plan that includes, in addition to the multi-year summary of estimated MCC Funding and the Government's contribution of funds and resources, an estimated draw-down rate for the first year of the Compact Term based on the achievement of performance milestones, as appropriate, and the satisfaction or waiver of conditions precedent. Each year, at least thirty (30) days prior to the anniversary of Entry into Force, the Parties shall mutually agree in writing to a Detailed Budget for the upcoming year of the Program, which shall include a more detailed budget for such year, taking into account the status of the Program at such time and making any necessary adjustments to the Multi-Year Financial Plan.

2. Implementation and Oversight.

The Multi-Year Financial Plan and each Detailed Budget shall be implemented by FOMILENIO, consistent with the approval and oversight rights of MCC and the Government as provided in this Compact, the Governing Documents and the Disbursement Agreement.

3. MCC Contribution.

The Multi-Year Financial Plan Summary identifies the estimated annual contribution of MCC Funding for Program administration, M&E and each Project.

4. Modifications.

The Parties recognize that the anticipated distribution of MCC Funding between and among the various activities for Program administration, M&E, the Projects and the Project Activities will likely require adjustment from time to time during the Compact Term. In order to preserve flexibility in the administration of the Program, as provided in Section 4(a)(iv) of Annex I, the Parties may, upon agreement of the Parties in writing and without amending this Compact, change the designations and allocations of funds among the Projects, the Project Activities, or any activity under Program administration or M&E, or between a Project identified as of Entry into Force and a new project, *provided, however*, that such reallocation (a) is consistent with the Objectives and the Implementation Documents, (b) shall not materially adversely impact the applicable Project, Project Activity (or any component thereof), or any activity under Program administration or M&E as specified in this Annex II, (c) shall not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact, and (d) shall not cause the Government's obligations or responsibilities or overall contribution of

resources to be less than specified in Section 2 2(a) of this Compact, this Annex II or elsewhere in the Compact

5. Conditions Precedent; Sequencing.

MCC Funding will be disbursed in tranches The obligation of MCC to approve MCC Disbursements for the Program is subject to satisfactory progress in achieving the Objectives and to the fulfillment or waiver of any conditions precedent specified in the Disbursement Agreement for the relevant activity under the Program The sequencing of Project Activities or sub-activities and other aspects of how the Parties intend the Program to be implemented will be set forth in the Implementation Documents, including the Work Plan for the Program (and each component thereof), and MCC Disbursements and Re-Disbursements will be made consistent with such sequencing

6. Government Contribution.

During the Compact Term, the Government shall make an appropriate contribution, relative to its national budget and taking into account prevailing economic conditions, toward meeting the Objectives of this Compact Such contribution shall be in addition to the Government's spending allocated toward such Objectives in its budget for the year immediately preceding the establishment of this Compact The Government has developed the Northern Zone Investment Plan, which includes anticipated contributions from the Government's national budget, as well as MCC Funding and other international contributions According to the Northern Zone Investment Plan, the Government anticipates making contributions from its national budget of approximately US$ 327 million over the Compact Term, including (i) approximately US$ 100 million toward the Human Development Objective, (ii) approximately US$ 180 million toward the Productive Development Objective, and (iii) US$ 46 million toward the Connectivity Objective The Government's contribution remains subject to any legal requirements in El Salvador for the budgeting and appropriation of such contribution, including approval of the Government's annual budget by the Asamblea Legislativa The Government's contribution may include in-kind and financial contributions (including obligations of the Government on any debt incurred toward meeting the Objectives) that the Government shall make in the satisfaction of the Government Responsibilities The Parties may set forth in appropriate Supplemental Agreements certain requirements regarding the Government's contribution, which requirements may be conditions precedent to MCC Disbursements

EXHIBIT A

MULTI-YEAR FINANCIAL PLAN SUMMARY

(Millions US$)

Component	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1 Human Development Project						
A Education and Training Activity	$2 91	$9 53	$7 15	$4 24	$3 88	$27 71
B Community Development Activity	$2 71	$13 65	$16 89	$16 78	$17 34	$67 37
Sub-Total	**$5 62**	**$23 18**	**$24 04**	**$21 02**	**$21 22**	**$95 07**
2 Productive Development Project						
A Production and Business Services Activity	$9 53	$11 94	$12 04	$13 63	$9 77	$56 92
B Investment Support Activity		$4 20	$7 35	$7 35	$2 10	$21 00
C Financial Services Activity	$4 02	$2 14	$1 36	$1 02	$1 00	$9 54
Sub-Total	**$13 55**	**$18 28**	**$20 76**	**$22 01**	**$12 87**	**$87 47**
3 Connectivity Project						
A Northern Transnational Highway Activity	$15 09	$52 88	$57 85	$11 93	$2 21	$139 95
B Connecting Roads Activity	$1 36	$29 91	$53 73	$6 87	$1 74	$93 61
Sub-Total	**$16 44**	**$82 79**	**$111 58**	**$18 80**	**$3 95**	**$233 56**
4 Accountability						
A Monitoring and Evaluation	$1 61	$1 38	$1 30	$2 12	$3 47	$9 88
B Audit	$0 45	$1 51	$1 89	$0 77	$0 50	$5 11
C Fiscal and Procurement Oversight	$0 79	$2 77	$3 48	$1 38	$0 85	$9 27
Sub-Total	**$2 85**	**$5 65**	**$6 67**	**$4 27**	**$4 82**	**$24 26**
5 Program Administration	$4 35	$4 07	$4 18	$4 03	$3 95	$20 59
Total Estimated Amount of MCC Funding	**$42 82**	**$133 97**	**$167 22**	**$70 12**	**$46 81**	**$460 94**

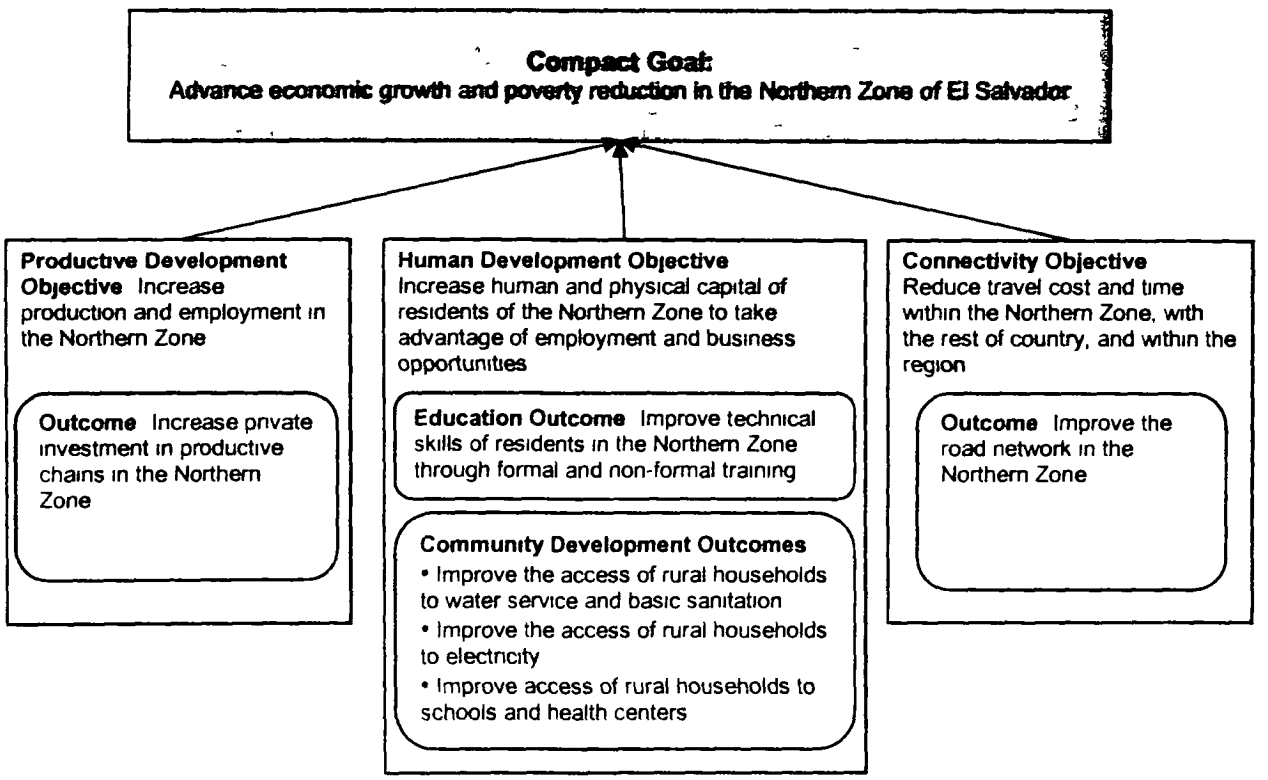
ANNEX III

DESCRIPTION OF THE M&E PLAN

This Annex III to the Compact (the "***M&E Annex***") generally describes the components of the M&E Plan for the Program. Except as defined in this M&E Annex, each capitalized term in this M&E Annex shall have the same meaning given such term elsewhere in this Compact.

1. Overview.

MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee) shall formulate, agree to and the Government shall implement, or cause to be implemented, an M&E Plan that specifies (a) how progress toward the Compact Goal, Objectives, and the intermediate results of each Project and Project Activity set forth in this M&E Annex (the "***Outcomes***") will be monitored (the "***Monitoring Component***"), (b) a methodology, process and timeline for the evaluation of planned, ongoing, or completed Projects and Project Activities to determine their efficiency, effectiveness, impact and sustainability (the "***Evaluation Component***"), and (c) other components of the M&E Plan described below. Information regarding the Program's performance, including the M&E Plan, and any amendments or modifications thereto, as well as periodically generated reports, will be made publicly available on the FOMILENIO Website and elsewhere. The Compact Goal, Objectives and Outcomes of the Program can be summarized as follows:



2. Monitoring Component.

To monitor progress toward the achievement of the Compact Goal, Objectives, and Outcomes, the Monitoring Component of the M&E Plan shall identify (a) the Indicators, (b) the party or

parties responsible, the timeline, and the instrument for collecting data and reporting on each Indicator to FOMILENIO, and (c) the method by which the reported data will be validated

(a) Indicators The M&E Plan shall measure the results of the Program using quantitative objective and reliable data ("***Indicators***") Each Indicator will have one or more expected results that specify the expected value and the expected time by which each result will be achieved (each, a "***Target***") In addition to the targets contained in this Annex, annual and quarterly targets will be included in the M&E Plan, as appropriate The M&E Plan will measure and report on Indicators at four levels First, the Indicators for the Compact Goal (each, a "***Goal Indicator***") will measure the impact of the overall Program and each Project Second, the Indicators for each Objective (each, an "***Objective Indicator***") will measure the final results of the Projects to monitor their success in meeting each of the Objectives, including results for the intended beneficiaries identified in accordance with Annex I (collectively, the "***Beneficiaries***") Third, intermediate Indicators (each, an "***Outcome Indicator***") will measure the intermediate results achieved under each of the Project Activities to provide an early measure of the likely impact of the Project Activities A fourth level of Indicators (each, an "***Output Indicator***") will be included in the M&E Plan to measure the direct outputs of the Project Activities All Indicators will be disaggregated by gender, income level and age, to the extent practicable Subject to prior written approval from MCC, FOMILENIO may add Indicators or refine the Targets of existing Indicators

Goal Indicators and Definitions for the Program	
Goal Indicators	
Poverty rate in the Northern Zone	Percentage of residents of the Northern Zone whose income falls below the poverty line as calculated by the General Directorate for Statistics and Census ("***DIGESTYC***")
Annual per capita income of Program beneficiaries in the Northern Zone	Average annual per capita income of Program beneficiaries in the Northern Zone
Gross domestic product (GDP) of the Northern Zone	A special study shall be contracted by FOMILENIO to develop a methodology to calculate GDP for the Northern Zone

Compact Goal Baselines and Targets for the Program			
Goal Indicators[1]	**2004**	**Year 5**	**Year 10**
Poverty rate in the Northern Zone			
With the Program	53%	41%	34%
Without the Program	53%	52%	51%
Annual per capita income of Program beneficiaries in the Northern Zone[2]			
With the Program	$720	$884[3]	$978[4]
Without the Program	$720	$736	$748
Gross domestic product of the Northern Zone	TBD[5]	TBD	TBD

[1] The targets for the Goal Indicators may be revised during implementation after more data is collected on poverty and income in the Northern Zone

[2] The target is in constant 2004 prices The deflator will be the Consumer Price Index as calculated by DIGESTYC

[3] This is a 20% increase in income with the Program compared to the "without the Program" scenario

[4] This is a 30% increase in income with the Program compared to the 'without the Program' scenario

Human Development Project Indicators and Definitions Project Activity: Education and Training	
Goal Indicators	
Incremental income of graduates of the Chalatenango Center	Percentage of increase in yearly income earned by graduates of the Chalatenango Center compared to graduates of 12th grade
Incremental income of graduates of middle technical schools	Percentage of increase in yearly income earned by graduates of middle technical schools compared to graduates of 9th grade
Objective Indicators	
Employment rate of graduates of the Chalatenango Center	Percentage of graduates of the Chalatenango Center (functioning as a MEGATEC institute) employed in field of study one year after graduation
Employment rate of graduates of middle technical schools	Percentage of graduates of middle technical schools remodeled by the Project Activity employed in field of study one year after graduation
Outcome Indicators	
Students of the Chalatenango Center	Total number of students enrolled in the Chalatenango Center (functioning as a MEGATEC institute)
Students of middle technical schools	Total number of students enrolled in the middle technical schools included in the Project Activity
Students of non-formal training	Number of students who participate in non-formal training as part of the Project Activity

Human Development Project Baselines and Targets Project Activity: Education and Training		
Goal Indicators		**Year 5**
Incremental income of graduates of the Chalatenango Center		42%
Incremental income of graduates of middle technical schools		37%
Objective Indicators	**2005**	**Year 5**
Employment rate of graduates of the Chalatenango Center	n a [6]	70% [7]
Employment rate of graduates of middle technical schools	50%	50% [8]
Outcome Indicators	**2005**	**Year 5**
Students of the Chalatenango Center (not cumulative)	0	1,100
Students of middle technical schools (not cumulative)	6,000 [9]	9 000
Students of non-formal training (cumulative)	0	13 000

The baseline and targets for this Goal Indicator will be determined after the special study to develop a methodology for calculating the Goal Indicator is conducted and the methodology has been approved by MCC

[6] The baseline is not available because the Chalatenango Center does not currently function as an institute in the Government's MEGATEC Network initiative which was established to expand and strengthen secondary technical education and post-secondary education (***MEGATEC***)

[7] The target is to achieve at least the same level of employment as a similar program in El Salvador

[8] The target is to achieve at least the same level of employment as currently achieved by middle technical schools in El Salvador on average

[9] The baseline is representative of the schools that will be included in the Project Activity After the schools have been selected the baseline will be updated

Human Development Project Indicators and Definitions Project Activity: Community Development	
Goal Indicators	
Increase in income of water and sanitation beneficiaries	Percentage increase in income of households receiving water and sanitation investments
Increase in income of electrification beneficiaries	Percentage increase in income of households who received connections to the electrical grid
Increase in income of community infrastructure beneficiaries[10]	Increase in income of households located close to community infrastructure
Objective Indicators	
Cost of water	Price of water per cubic meter for beneficiaries that buy water before the Project Activity
Water consumption	Number of cubic meters of water per month paid for by project beneficiaries
Time collecting water	Hours per week spent collecting water by Project households
Reduction in the incidence of water-borne diseases	Number of times a year beneficiaries are sick with intestinal parasitism, diarrhea and infectious gastroenteritis
Reduction in days of school or work missed as a result of water-borne diseases	Reduction of the number of days of school or work missed per year as a result of intestinal parasitism, diarrhea or infectious gastroenteritis per beneficiary
Cost of electricity	Price of electricity per kilowatt-hour for beneficiaries
Electricity consumption	Number of kilowatt-hours per month consumed on average by rural households connected to the electricity network by the Project Activity
Time saved accessing education and health centers	Reduction in minutes per working day dedicated to accessing education and health centers by beneficiaries of the Community Infrastructure Sub-Activity
Outcome Indicators	
Population with water in the Northern Zone	Number of households with access to water (within the household, outside the household, from a neighbor from a public faucet, or from a well) divided by total number of households in the Northern Zone
Population with basic sanitation in the Northern Zone	Number of households with access to either private sewage drainage systems, latrines or septic tanks divided by total number of households in the Northern Zone
Population with electricity in the Northern Zone	Number of households with a private electricity connection divided by the total number of households in the Northern Zone
Population benefiting from community infrastructure[11]	Number of beneficiaries from the Community Infrastructure Sub-Activity

[10] Community infrastructure refers to the construction of small strategic projects in the Northern Zone such as feeder roads and associated drainage systems

[11] Community infrastructure refers to the construction of small strategic projects in the Northern Zone such as feeder roads and associated drainage systems

Human Development Project Baselines and Targets Project Activity: Community Development		
Goal Indicators		**Year 5**[12]
Increase in income of water and sanitation beneficiaries		10%
Increase in income of electrification beneficiaries		15%
Increase in income of community infrastructure beneficiaries		5%
Objective Indicators	**2004**	**Year 5**[13]
Cost of water (US$ per m_3)[14]	$3 00	$0 43[15]
Water consumption (m_3)	3 3	18
Time collecting water (hours per week per household)	30	14
Reduction in the incidence of water-borne diseases (times per year per person)	0	1 5
Reduction in days of school or work missed as a result of water-borne diseases (days per year per person)	0	7
Cost of electricity (per kilowatt-hour)[16]	$2 57	$0 20
Electricity consumption (kilowatt-hours per month)	3	50
Time saved accessing education and health centers (minutes per working day per beneficiary)	0	20
Outcome Indicators	**2004**	**Year 5**
Population with water in the Northern Zone[17] (%)	75%	85%
Population with basic sanitation in the Northern Zone[18] (%)	74%	80%
Population with electricity in the Northern Zone[19] (%)	92%	97%
Population benefiting from community infrastructure (cumulative people)	0	131,000

[12] These targets correspond to one year after a household has received the Project intervention

[13] These targets correspond to one year after a household has received the Project intervention

[14] The target is in constant 2004 prices The deflator will be the Consumer Price Index as calculated by DIGESTYC

[15] The target is based on the cost of distribution only

[16] The target is in constant 2004 prices The deflator will be the Consumer Price Index as calculated by DIGESTYC

[17] The targets for this indicator may be revised after the completion of the Population Census in 2007

[18] The targets for this indicator may be revised after the completion of the Population Census in 2007

[19] The targets for this indicator may be revised after the completion of the Population Census in 2007

Productive Development Project Indicators and Definitions	
Goal Indicators	
Increase in income of Productive Development beneficiaries	Average percentage increase in annual income of project beneficiaries
Objective Indicators	
Economic rate of return (ERR)	The definition and methodology for calculating the ERR will be set forth in the PD Operations Manual and will be consistent with MCC's Guidelines for Economic Analysis
Employment created	Number of full-time equivalent jobs created as a result of the Project
Outcome Indicators	
Investment in productive chains by selected beneficiaries	Spending of MCC Funding and counterpart contributions on inputs, equipment and infrastructure as laid out in business plans over the Compact Term

Productive Development Project Baselines and Targets		
Goal Indicators		**Year 5**
Increase in income of Productive Development beneficiaries (%)		15%[20]
Objective Indicators	**2006**	**Year 5**
Economic rate of return (%)[21]		14%[22]
Employment created (number of jobs)	0	9,000[23]
Outcome Indicators	**2004**	**Year 5**
Investment in productive chains by selected beneficiaries (Thousands of US$)[24]	0	$80,000[25]

[20] The target is based on the productive sectors that will increase income within the 5 years of the Compact Term By year 10 the annual increase in income is expected to be 50% based on the productive sectors that will increase income by year 10

[21] The economic rate of return will be monitored annually

[22] The target which is based on the sectors included in the pre-Compact economic analysis is the same for every year

[23] The target is based on the sectors that were included in the pre-Compact economic analysis

[24] The target is in constant 2004 prices The deflator will be the Consumer Price Index as calculated by DIGESTYC

[25] The target is based on the sectors that were included in the pre-Compact economic analysis

Connectivity Project Indicators and Definitions	
Goal Indicators	
Increase in income of households near the Northern Transnational Highway	Increase in income of households within 2 km of the Northern Transnational Highway
Increase in income of households near the Network of Connecting Roads	Increase in income of households within 2 km of the Network of Connecting Roads
Land prices along the Northern Transnational Highway	Average price of land 2 km on either side of the Northern Transnational Highway (weighted average of all road sections to be opened or improved)
Land prices along the Network of Connecting Roads	Average price of land 2 km on either side of the Network of Connecting Roads (average of all road sections to be improved)
Objective Indicators	
Travel time from Guatemala to Honduras through the Northern Zone	Number of hours required to travel from Guatemala to Honduras through the Northern Zone
Vehicle operating costs on the Northern Transnational Highway	Cost per vehicle (pick-up truck) per km of combustibles, lubricants, tires, depreciation, maintenance and repair for travel on the Northern Transnational Highway
Vehicle operating costs on the Network of Connecting Roads	Cost per vehicle (pick-up truck) per km of combustibles, lubricants tires, depreciation maintenance and repair for travel in the Network of Connecting Roads from baseline
Annual average daily traffic on the Northern Transnational Highway	Average number of vehicles that transit the Northern Transnational Highway daily
Annual average daily traffic on the Network of Connecting Roads	Average number of vehicles that transit the Network of Connecting Roads daily
Outcome Indicators	
Average International road Roughness Index (IRI) of the Northern Transnational Highway	Weighted average IRI of the entire Northern Transnational Highway
Average IRI of the Network of Connecting Roads	Weighted average IRI of the Network of Connecting Roads

Connectivity Project Baselines and Targets		
Goal Indicators	**2006**	**Year 5**
Increase in income of households near the Northern Transnational Highway		6%
Increase in income of households near the Network of Connecting Roads		5%
Land prices along the Northern Transnational Highway (US$ per m^2)[26]	$3 22[27]	$3 40[28]
Land prices along the Network of Connecting Roads (US$ per m^2)[29]	$1 86[30]	$1 95[31]
Objective Indicators	**2006**	**Year 5**
Travel time from Guatemala to Honduras through the Northern Zone (hours)	17 hours	8 hours 30 minutes
Vehicle operating costs on the Northern Transnational Highway (US$ per pick-up truck per km)[32]	$0 38	$0 28
Vehicle operating costs on the Network of Connecting Roads (US$ per pick-up truck per km)[33]	$0 42	$0 24
Annual average daily traffic on the Northern Transnational Highway (vehicles per day)	379	436
Annual average daily traffic on the Network of Connecting Roads (vehicles per day)	204	226
Outcome Indicators	**2006**	**Year 5**
Average International road Roughness Index (IRI) of the Northern Transnational Highway (m/km)	10 2	2 7
Average IRI of the Network of Connecting Roads (m/km)	12 1	2 7

(b) Data Collection and Reporting DIGESTYC shall provide monitoring information to FOMILENIO from the annual Household Survey for Multiple Purposes (*Encuesta de Hogares de Propositos Multiples*, "***EHPM***") MCC Funding will increase the number of households included in the EHPM sample in the Northern Zone, *provided, however*, that the Government shall ensure that DIGESTYC continues to include the necessary number of

[26] The target is in constant 2006 prices The deflator will be the Consumer Price Index as calculated by DIGESTYC

[27] The baseline is from 2006 The baseline will be confirmed by the feasibility study The target may be revised if there is a revision to the baseline

[28] The target is based on a conservative increase in land prices that was included in the pre-Compact economic analysis The projected increase in price varies by type of road intervention and the target is a weighted average of all road segments

[29] The target is in constant 2006 prices The deflator will be the Consumer Price Index as calculated by DIGESTYC

[30] The baseline is from 2006 The baseline will be confirmed by the feasibility study The target may be revised if there is a revision to the baseline

[31] The target is based on a conservative increase in land prices that was included in the pre-Compact economic analysis The projected increase in price varies by type of road intervention and the target is a weighted average of all road segments

[32] The target is in constant 2006 prices The deflator will be the Consumer Price Index as calculated by DIGESTYC

[33] The target is in constant 2006 prices The deflator will be the Consumer Price Index as calculated by DIGESTYC

households in the EHPM sample for the Northern Zone as required in the M&E Plan The M&E Plan shall establish guidelines for additional data collection and a reporting framework, including a schedule of Program reporting and responsible parties

The Management shall conduct regular assessments of program performance to inform FOMILENIO and MCC of progress under the Program and to alert these parties to any problems These assessments will report the actual results compared to the Targets on the Indicators referenced in the Monitoring Component, explain deviations between these actual results and Targets, and in general, serve as a management tool for implementation of the Program With respect to any data or reports received by FOMILENIO, FOMILENIO shall promptly deliver such reports to MCC along with any other related documents, as specified in the M&E Plan or as may be requested from time to time by MCC

(c) Data Quality Reviews From time to time, as determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan shall be reviewed to ensure that data reported are as valid, reliable, and timely as resources will allow The objective of any data quality review will be to verify the quality and the consistency of performance data across different implementation units and reporting institutions Such data quality reviews also will serve to identify where those levels of quality are not possible, given the realities of data collection The data quality reviewer shall enter into an Auditor Reviewer Agreement with FOMILENIO in accordance with Annex I

3. Evaluation Component.

The Program shall be evaluated on the extent to which the interventions contribute to the Compact Goal The Evaluation Component of the M&E Plan shall contain a methodology, process and timeline for collecting and analyzing data in order to assess planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability The evaluations should use state-of-the-art methods for addressing selection bias The Government shall implement, or cause to be implemented, surveys to collect longitudinal data on both Beneficiary and non-Beneficiary households The Evaluation Component shall contain two types of reports, Final Evaluations and Ad Hoc Evaluations, and shall be finalized before any MCC Disbursement or Re-Disbursement for specific Program activities or Project Activities

(a) Final Evaluation FOMILENIO, in connection with MCC's request to the Government pursuant to Section 3(h) of Annex I, shall engage an independent evaluator to conduct an evaluation at the expiration or termination of the Compact Term ("***Final Evaluation***") The Final Evaluation must at a minimum (i) evaluate the efficiency and effectiveness of the Program, (ii) estimate, quantitatively and in a statistically valid way the causal relationship between the Compact Goal (to the extent possible), the Objectives and Outcomes, (iii) determine if, and analyze the reasons why, the Compact Goal, Objectives and Outcomes were or were not achieved, (iv) identify positive and negative unintended results of the Program, (v) provide lessons learned that may be applied to similar projects (vi) assess the likelihood that results will be sustained over time, and (vii) any other guidance and direction that will be provided in the M&E Plan To the extent engaged by FOMILENIO, such independent evaluator shall enter into an Auditor Reviewer Agreement with FOMILENIO in accordance with Annex I

(b) Ad Hoc Evaluations Either MCC or FOMILENIO may request ad hoc or interim evaluations or special studies of Projects, Project Activities, or the Program as a whole prior to the expiration of the Compact Term (each, an "***Ad Hoc Evaluation***") If FOMILENIO engages an evaluator for an Ad Hoc Evaluation, the evaluator will be an externally contracted independent source selected by FOMILENIO, subject to the prior written approval of MCC, following a tender in accordance with the Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter or Supplemental Agreement If FOMILENIO requires an ad hoc independent evaluation or special study at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to a Project or Project Activity or seeking funding from other donors, no MCC Funding or FOMILENIO resources may be applied to such evaluation or special study without MCC's prior written approval

4. Other Components of the M&E Plan.

In addition to the Monitoring Component and the Evaluation Component, the M&E Plan shall include the following components for the Program, Projects and Project Activities, including, where appropriate, roles and responsibilities of the relevant parties and Providers

(a) Costs A detailed cost estimate for all components of the M&E Plan

(b) Assumptions and Risks Any assumptions and risks external to the Program that underlie the accomplishment of the Compact Goal, Objectives, and Outcomes, *provided, however*, such assumptions and risks shall not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties

5. Implementation of the M&E Plan.

(a) Approval and Implementation The approval and implementation of the M&E Plan, as amended from time to time, shall be in accordance with the Program Annex, this M&E Annex, the Governing Documents, and any relevant Supplemental Agreement

(b) Advisory Council The completed portions of the M&E Plan will be presented to the Advisory Council at the Advisory Council's initial meetings, and any amendments or modifications thereto or any additional components of the M&E Plan will be presented to the Advisory Council at appropriate subsequent meetings of the Advisory Council The Advisory Council will have opportunity to present its suggestions to the M&E Plan, which the Board shall take into consideration in its review of any amendments to the M&E Plan during the Compact Term

(c) MCC Disbursement and Re-Disbursement for a Project Activity As a condition to each MCC Disbursement or Re-Disbursement there shall be satisfactory progress on the M&E Plan for the relevant Project or Project Activity, and substantial compliance with the M&E Plan, including any reporting requirements

(d) Modifications Notwithstanding anything to the contrary in this Compact, including the requirements of this M&E Annex, MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee) may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending the Compact *provided, however*, that any such modification or amendment of the M&E Plan has

been approved by MCC in writing and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties